

How Do Institutions Matter to Cross-Border Mergers and
Acquisitions by Emerging Economy Multinationals in
Developed Countries

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Abstract

Cross-border mergers and acquisitions (CBMAs) from emerging economies (EEs) to developed economies (DEs) have recently experienced a phenomenal growth. CBMA is a fast and direct way to acquire advanced strategic assets from DEs by multinational enterprises from EEs (EMNEs) in order to improve their competitive advantages. What factors explain this strategic decision and what is the performance consequence? Using the institution-based view (IBV) as a theoretical lens, this thesis consists of three empirical research studies.

The first one analyses the institutional distance (ID) between the home and the host countries influencing EMNEs' CBMAs in the OECD countries. Based on the comprehensive eight dimensions of ID framework developed by Berry et al. (2010), this study develops various hypotheses of positive and negative relationships between institutional distance and EMNEs' CBMAs in the OECD countries. Empirical results confirm the impact of political, economic, knowledge, global-connectedness, administrative and cultural distance. Financial, demographic and geographic distances are insignificant.

The second study examines the role of political institutions in the host and home countries of EMNEs' CBMAs, the two groups of variables that are often treated separately in the existing literature. Hypotheses are developed based on the concepts of six political institutions by Kaufmann et al. (1999). Empirical results show that in general host country political institutions positively affect EMNEs' CBMAs in the OECD countries while home country political institutions play a negative role. Not all political institutional factors are of equal importance. Firms are concerned about government effectiveness, regulatory quality, rule of law and corruption of host countries, and political stability and lack of violence, regulatory quality, rule of law and corruption of home countries.

The third project looks into the acquired firm performance. Using accounting measures for firm performance, this empirical study analyses the impact of ID on acquired firm performance. Results suggest that formal institutional distance (political, economic and administrative) positively affect acquired firm performance, while informal institutional distance (cultural and knowledge) negatively affect acquired firm performance.

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Author's Declaration

I hereby declare that this thesis 'How Do Institutions Matter To Cross-Border Mergers and Acquisitions By Emerging Economy Multinationals In Developed Countries' represents my original work and it has not been submitted, either in part or whole, for a degree award at any Universities. Wherever other sources of information are used every effort has been made to indicate this clearly, with due reference to the literature and acknowledgement of the contributions of others.

Chapter 1 Introduction

1.1 Research Background and Research Questions

Cross-border mergers and acquisitions (CBMAs) have long been used as an important strategy for firms' international strategic expansion. CBMAs can be used to access new markets, acquire resources and strategic assets and improve firm's efficiency. Thanks to the fast technological development and the increasing globalization after World War II, multinational enterprises (MNEs) from developed economies (DEs) – North America, Europe and Japan – have dominated the field of CBMAs (Guillén and García-Canal, 2009). However since the early 1980s, MNEs from emerging economies (EMNEs) have become important players in the world CBMA landscape (Malhotra et al., 2009). A few high-profile cases have attracted lots of media attention as well as academic studies, for example, Lenovo (China)'s acquisition of the personal computer division of IBM (US), Dubai Ports World's successful bid for the P&O Steam Navigation Company (UK), Tata (India)'s takeover of Corus (UK/Netherlands), Cemex (Mexico)'s purchase of Rinker (Australia) and Lukoil (Russian Federation)'s acquisition of Nelson Resources (UK).

In aggregate statistical terms, the rise of CBMAs by EMNEs has been

phenomenal. Back in 1991, EMNEs only made 101 out of 1,582 CBMA deals in the world, with the total volume of deals being 2.25 billion US dollars, which only accounted for 10.69% of the total volume of the world CBMAs. EMNEs have become frequent purchasers since the start of the new century. In 2007, EMNEs made 1,047 cases of CBMAs in the world, which almost tripled the number in 2001 (371). There were more than \$144 billion in CBMA transactions by EMNEs, which accounted for almost 14.16% of the world total volume in 2007. Although recession since 2008 has affected the world in general, EMNEs have maintained the growth in internationalisation. In 2008, both the number and volume of EMNEs' CBMAs increased by 1% compared to 2007. In 2009 and 2010, almost 30% of the world CBMAs was contributed by EMNEs (UNCTAD, 2011, UNCTAD, 2008, UNCTAD, 2007, UNCTAD, 2001, UNCTAD, 2000, UNCTAD, 2010, UNCTAD, 2009). Looking more closely into the statistics of EMNEs' CBMAs in DEs, the number accounted for 4.6% of the total number of EMNEs' CBMA deals in 1991; however, it sharply increased to 30% in 1999, and has maintained at the level of at least 34% since 2000 (Author's own calculations based on the dataset from SDC database and UNCTAD World Development Report 2000-2011).

In contrast with MNEs from DEs (DMNEs), EMNEs exhibit different characteristics in CBMAs. First, EMNEs are weaker in the level of

technology and know-how assets than DMNEs. DMNEs often seek resources and new markets through CBMAs, while EMNEs are often motivated to improve and strengthen their competitive advantages by acquiring advanced R&D, human resources, brand reputation and other strategic assets from CBMAs in DEs (Cuervo-Cazurra and Genc, 2008, Kedia et al., 2012). Second, EMNEs are less experienced in international business than DMNEs. Prior experience help expose firms to a variety of ideas and events, which can lead to a more extensive knowledge base and potentially increase technological capabilities (Shimizu et al., 2004). Third, EMNEs may acquire value added assets overseas in order to break the institutional constraints at home, because a weak home institution provides EMNEs with a constrained, unstable, costly and unpredictable market (Goldstein and Pusterla, 2010). Fourth, government is likely to be more influential in EMNEs' activities. EMNEs sometimes have a government background, or compete with government support (Luo and Tung, 2007).

There is extensive literature on CBMAs from DEs to DEs or to EEs (e.g. Anand and Kogut, 1997, Erel et al., 2012, Shimizu et al., 2004). Studies of EMNEs' CBMAs in DEs have received little attention until recently (Jormanainen and Koveshnikov, 2012). Existing empirical studies mostly focus on EMNEs' expansion into developing countries (Jormanainen and Koveshnikov, 2012). However, upmarket acquisitions from EEs to DEs are

of particular strategic significance to EMNEs. They represent a quite effective and quick way for EMNEs to access strategic assets that are mostly or only available in DEs (Luo and Tung, 2007, Shimizu et al., 2004). To fill the research gap, this thesis adopts the institution-based view (IBV) as a theoretical lens for understanding the determinants and the performance consequence of EMNEs' CBMAs in DEs.

The basic thrust of the IBV is that firm strategy and performance are constrained by conditions set by institutions; more colloquially, by the "rules of the game" (North, 1990). In a country characterized by strong institutions with well-developed factor markets, few government interventions and an effective mechanism for contract enforcement, the costs of doing business there are likely to be low, which facilitates economic activities. To the contrary, in a country characterized by weak institutions, firms face constraints resulting from insufficiently developed market-supporting institutions and additional hazards, restrictions and costs. MNEs embed in both their home and host country contexts; they are, therefore, affected by both home and host country institutions. However, the home and host countries of EMNEs in DEs have different institutions. The host DEs are often considered as having "invisible, efficient and supporting institutions", while the home EEs are more likely to have constrained institutions and lack market-support mechanisms (Peng, 2002).

Existing studies, though recognizing the role of institutions in EMNEs' CBMAs, are limited in their treatment of institutional factors (Zhang et al., 2011, Stucchi, 2012, Lin et al., 2009). Institution is often considered a black box. To the best of my knowledge, only a few studies explicitly examine the multi-dimensional nature of institutions. Berry et al. (2010) provide the most comprehensive framework with eight dimensions for institutional distance: political, economic, cultural, financial, knowledge, global-connectedness, demographic and administrative distance. With regard to political institutions, Kaufmann constructs six indicators: voice and accountability, political stability and lack of violence, government effectiveness, regulatory quality, rule of law, and control of corruption (Kaufmann et al., 1999, Kaufmann et al., 2009, Kaufmann et al., 2007). In this thesis, I look in detail at the role of different institutional dimensions in EMNEs' CBMA decisions in the OECD countries and the performance consequence of the acquired firms. Thus I aim to offer a more comprehensive understanding of the role of institutions in EMNEs' CBMAs.

The first study investigates how institutional distance (ID) between home and host countries affects EMNEs' CBMAs in the OECD countries. This study links the ID research by Berry et al. (2010) to EMNEs' CBMA decisions in the OECD countries, and tests hypotheses on how different dimensions of ID influence CBMAs by EMNEs in the OECD countries

using a multi-home and multi-host country dataset.

Following from the first study, the second research project takes an in-depth look into political institutions. This study links the research of Kaufmann and his associates in 1999, 2007 and 2009 to EMNEs' CBMA decisions in the OECD countries. Hypotheses are formulated on how different dimensions of political institutions of EMNEs' home and host countries affect their strategic decisions.

EMNEs acquire strategic assets, such as advanced marketing skills, superior R&D ability, managerial know-how assets and human assets through CBMAs in DE markets (Buckley et al., 2007, Kedia et al., 2012, Luo and Tung, 2007, Shimizu et al., 2004, Lu et al., 2011). In the meantime, target firms in DEs benefit from the strong financial support and the new, large market provided by these EMNEs. CBMAs are therefore considered by managers of both the acquired and the target firms as a way to improve firm performance (Shimizu et al., 2004). The third study examines the role of ID in affecting firm performance in CBMAs.

1.2 Potential Contributions

This thesis intends to enrich the research agenda of EMNEs' CBMAs in OECD countries. The first study on the determinants of location choice tries to provide a comprehensive conceptual framework on home-host country institutional distance (ID) and EMNEs' CBMAs in OECD countries. Existing literature has paid attention to institutional influences on CBMAs, but most of them study the single dimension of institutional distance (Di Giovanni, 2005, Malhotra et al., 2009, Xu and Shenkar, 2002, Zhang et al., 2011). It is often argued that ID creates barriers to interactions between headquarters and host country subsidiaries and between these subsidiaries and local economic agents. This, therefore, has a negative impact on CBMAs. However, this view fails to take into account the multi-dimensional nature of ID. Different dimensions of ID impact CBMAs in different ways. This study tries to develop hypotheses with regard to eight dimensions of institutional distance in addition to geographic distance. This study intends to examine the relationships between these distances and the number of CBMAs by EMNEs in the OECD countries.

The second research study considers home and host country political institutions in an integrated framework. Existing research often treats these two groups of variables separately. With the exception of Globerman and

Shapiro (2002), existing studies also only examine limited aspects of the institution. This research recognizes that EMNEs may consider both groups of variables at absolute terms simultaneously. I develop hypotheses based on the concepts developed by Kaufmann et al. (1999): voice and accountability, political stability and lack of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. This study intends to examine the relationships between home political institutions and the number of CBMAs by EMNEs in the OECD countries as well as the relationships between host political institutions and the number of CBMAs by EMNEs in the OECD countries.

The third project on firm performance again tries to capture properly the determining role of institutional distance. EMNEs use CBMAs to acquire advanced strategic assets in DEs, but the acquired firms in DEs can also benefit from CBMAs through entering the new, large market and obtaining financial support through EMNEs (Buckley et al., 2007, Kedia et al., 2012, Luo and Tung, 2007, Shimizu et al., 2004, Lu et al., 2011). Differently from the existing literature, this study looks into the different aspects of institutions, formal and informal institutional distance. It intends to examine the impact of formal institutional distance on the performance of acquired firms of EMNEs in DEs, as well as the impact of informal institutional distance on the performance of acquired firms of EMNEs in in the OECD

countries.

Empirically, I make a contribution by testing hypotheses on three datasets covering multiple-host and multiple-home countries in recent years when EMNEs have had substantial activities in DEs. The wide geographic coverage of the sample across a relatively long time period provides potentially good variance to test for varying impacts of the different dimensions of institutions under study. The findings help provide new insights into EMNEs that undertake CBMAs in different institutional contexts, and broaden the understanding of complicity associated with institutions in the strategic location decisions of EMNEs and the performance consequence.

1.3 Structure of the Thesis

This thesis comprises six chapters. The structure of the thesis and the summary of each chapter are presented below.

Chapter 1 – Introduction

The first chapter introduces the research theme of the thesis and key research questions, and then previews the potential contributions to the research topic.

Chapter 2 – An Overview of EMNEs and the Institution-based View

Chapter two presents background information for the analysis of EMNEs' CBMAs in DEs. It covers the discussion of key concepts of EEs, DEs, EMNEs. It provides an overview of the IBV and the conceptualization of institutional distance.

Chapter 3 – How Institutional Distance Matters in the EMNEs' CBMAs in the OECD Countries

Chapter three provides a systematic examination of the role of institutional distance in the location choice of EMNEs' CBMAs in the OECD countries, based on the IBV. It focuses on treating institutional distance as a multi-dimensional concept. More specifically, institutional distance covers political, economic, financial, administrative, demographic cultural, knowledge and global-connectedness distance.

Chapter 4 – The Role of Political Institutions in EMNEs' CBMAs in the OECD Countries

Chapter four provides an empirical analysis of the role of political institutions of both home and host countries in the location choice of EMNEs' CBMAs in the OECD countries. Instead of taking either the perspective of the home country or that of the host country, this research

considers a number of different aspects of both the home and the host countries.

Chapter 5 – The Impact of Institutional Distance on the Performance of Acquired Firms by EMNEs in the OECD Countries

After assessing the determinants of EMNEs' CBMAs in the OECD countries, Chapter 5 assesses the impact of institutional distance on acquired firm performance. Different from the conventional wisdom that institutional distance negatively affects firm performance, this chapter argues that formal institutional distance positively affects firm performance, but informal institutional distance negatively affects firm performance.

Chapter 6 – Conclusion

Chapter six summarizes the key findings of the thesis. This chapter also presents the contributions and implications and discusses the limitations of the research, and suggests potential research topics to extend the future research in this field.

Chapter 2 An Overview of EMNEs and the Institution-based View

This chapter presents background information for the analysis of multinational enterprises from emerging economies (EMNE)s' cross-border mergers and acquisitions (CBMAs) in developed economies (DEs). It covers the discussion of key concepts of emerging economies (EEs), DEs and EMNEs. It provides an overview of the institution-based view (IBV) and the conceptualization of institutional distance. Below, section 2.1 describes the identification and characteristics of EEs and EMNEs. Section 2.2 presents a summary of EMNEs' CBMAs. Section 2.3 covers IBV. Section 2.4 focuses on the institutional distance.

2.1 EEs and EMNEs

2.1.1 Emerging Economies

There is no agreed definition on the term “emerging economies”. However, there are different lists for emerging economies produced by the IMF, the Emerging Market Global Players project at Columbia University, the FTSE Group, MSCI Barra, Standard and Poor's, Dow Jones, BBVA Research, MasterCard and the Economist. Putting together these lists, more than 50

fast-developing countries in Asia, Latin America, Africa and the Middle East have been classified as “emerging economies”. Some unique characteristics can be observed for this group. First, EE governments always have a significant influence on EE business activities. The government influence can be either positive support or weak institutional constraints to motivate local firms to go international. Supportive home government policy prompts the domestic firm to internationalise for a better innovation environment or new market (Buckley et al., 2007). Efficient government can reduce time and transaction costs in dealing with international business (Liu and Buck, 2009). A stable political system also provides more confidence for domestic firms to internationalise (Hyun and Kim, 2010). However, compared with DE institutions, EEs have weak institutions, for example strong local protection and corruption. In order to break these domestic constraints, domestic firms go abroad to seek other more open institutions (Luo and Tung, 2007, Rossi and Volpin, 2004).

Second, the infrastructure in EEs is weak; innovation systems and technology are undeveloped. In EEs, firms struggle with weak legal and regulatory institutions. Many EEs suffer from unbalanced infrastructure development, for example an underdeveloped transportation system and lower education coverage. Domestic firms are forced to expand overseas for better infrastructures and advanced strategic assets (Bekaert and Harvey,

2002). The lack of local infrastructure and technology brings constraints on an efficient legal system and new technology to provide new and proper products and services.

Finally, the markets in EEs are demanding and fragmented. On one hand, in association with a previous point, EE markets are fast growing and changing rapidly. Both the development need and the shortage of resources at home require domestic firms to seek natural and non-natural resources from foreign sources, either at home or by going abroad. On the other hand, there are increasingly more interactions between DEs and EEs. Because a fast-growing economy encourages more demand for DEs' products and services by the EEs' population, more international business occurs to fulfil the population needs (Goldstein and Pusterla, 2010, Li and Hoyer-Ellefsen, 2008).

2.1.2 Emerging Economies Multinationals

EMNEs are companies who originate from EEs and are involved in outward foreign direct investment (FDI) in one or more foreign economies, where they spread effective control and embark on value-adding activities (Luo and Tung, 2007, Child and Rodrigues, 2005). In association with the strong economic growth, EMNEs are more active than ever before. EMNEs have

some unique features. First, most EMNEs are successful enterprises in the domestic market but are less competitive in international business (Child and Rodrigues, 2005). Second, a large number of EMNEs are backed by governments or are state-owned enterprises. They engage foreign acquisition with home institutional support such as rich industrial experience, government underwriting and government funding. For some private and public-sharing enterprises, they also obtain institutional support such as a reduction in value added tax and government funding (Luo and Tung, 2007). Third, EMNEs acquire developed multinational enterprises (DMNEs) to access advanced technology, HR resources and other strategic assets, in order to offset their competitive weaknesses. Fourth, target firms are highly related to EMNEs' own industrial sectors. For example, Indian and Chinese automobile and manufacturing multinational enterprises (MNEs) all acquired targets in the same industry, such as India TATA-UK Land Rover and China CNOOC (Oil)-Canada NEXEN (Oil). As a consequence, EMNEs not only enhance their leading positions at home, but also become more competitive in the foreign market (Luo and Tung, 2007). Finally, EMNEs are different from DMNEs in corporate and social cultures, languages and other social norms. Successfully dealing with cultural differences would be fatal to the success of CBMAs in DEs. EMNEs need to consider the cultural gap as one of the key factors, and EMNEs gradually learn from previous experience or similar examples to reduce the risk of

cultural failure (Goldstein and Pusterla, 2010, Shimizu et al., 2004).

2.2 EMNEs' CBMAs

In recent decades, cross-border mergers and acquisitions (CBMAs) have experienced a phenomenal growth, from only 6.36% in total volume of worldwide CBMAs in 2000, to 28.53% in 2010. Emerging economies (EE) firms have contributed a remarkable raise since 2000 (UNCTAD, 2000, UNCTAD, 2007, UNCTAD, 2011). Back in 1991, EMNEs only made 101 deals out of 1,582 total worldwide CBMA deals; the volume was as little as \$2.25 billion, which only accounted for 10.69% of the total volume of worldwide CBMAs. Since the start of the new century, EMNEs have become active purchasers in the international market. In 2007, EEs tripled the number of CBMAs deals to 1,047 compared with the figure in 2001. More than \$144 billion was traded, which accounts for 14.16% of the world total volume. The recession since 2008 has negatively affected the absolute number and the volume of EMNEs' CBMA cases. However, the share of EMNEs in the overall world CBMAs has kept the upward trajectory. In 2008, both the share and the volume of EMNEs' CBMAs increased by 1% compared to 2007. In 2009 and 2010, as much as 30% of worldwide CBMAs were contributed by EE firms.

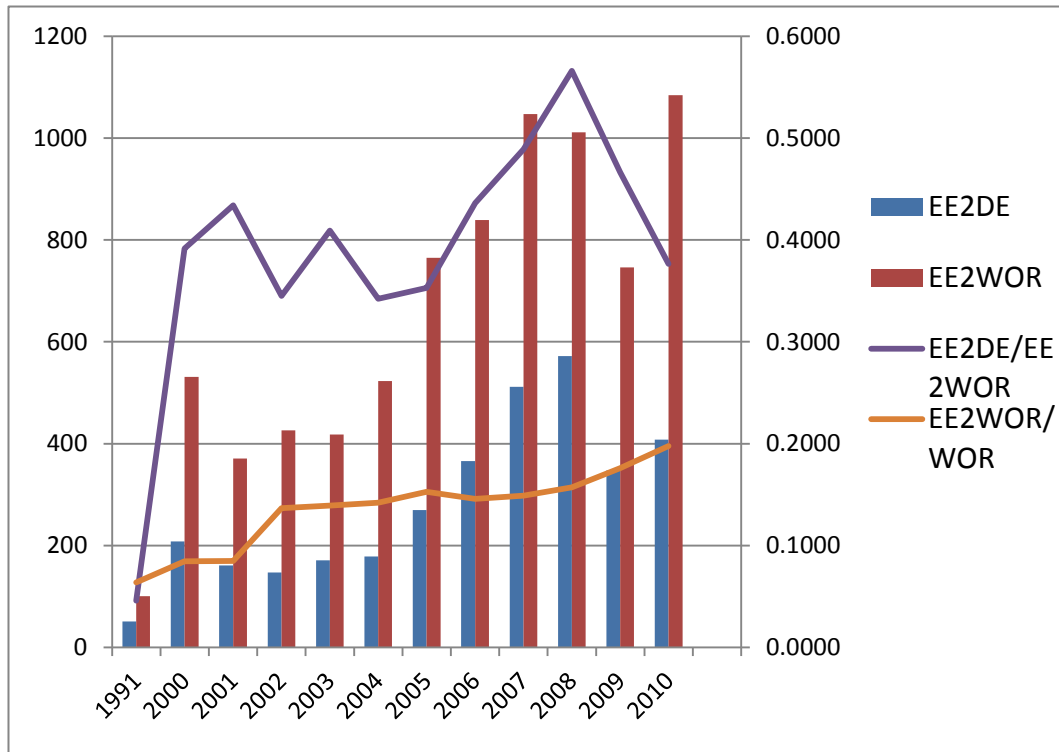
Taking a closer look into the statistics of EMNEs' CBMAs in DEs to the total number of EMNEs' CBMAs, it accounted from the lowest 4.6% in 1991 to the highest 30% in 1999 over a period of 1991-1999. The figure rapidly rose up to 39.17% in 2000. More than half (56%) of EMNEs' CBMAs deals were made in DEs in 2008. Then it keeps the figure of more than 37% until now (Author's own calculations based on the dataset from SDC database and UNCTAD World Development Report 2000-2011). Table 1 shows the absolute volume and number of EMNEs' CBMAs from 2000-2010. Table 2 shows the growth trend of the number of EMNEs' CBMAs from 2000-2011.

Table 1 Shares of EMNEs' CBMA Activities, 2000-2010

Year	Total FDI Inflows	Number of CBMAs			Volume of CBMAs		
	World (US\$ m)	World	Emerging Economies	Share (%)	World (US\$ m)	Emerging Economies	Share (%)
1991	154,072.7	1,582	101	6.38	21,094	2,254	10.69
1992	165,880.8	2,132	144	6.75	48,106	7,453	15.49
1993	223,316.3	2,179	222	10.19	43,623	6,397	14.66
1994	255,999.9	2,774	293	10.56	91,769	9,946	10.84
1995	342,798.6	3,404	286	8.40	112,527	6,350	5.64
1996	390,899.5	3,650	412	10.01	142,557	14,371	10.08
1997	487,853.5	4,132	414	5.61	180,751	13,564	7.50
1998	706,265.9	4,942	325	6.58	406,427	12,691	3.12
1999	1,091,438.7	5,549	311	5.60	630,807	11,569	1.83
2000	1,400,540.6	6,280	531	8.46	905,214	57,599	6.36
2001	827,617.3	4,368	371	8.49	429,374	28,019	6.53
2002	627,974.8	3,114	426	13.68	248,446	29,711	11.96
2003	586,956.4	3,004	418	13.91	182,874	16,059	8.78
2004	744,329.2	3,683	523	14.20	227,221	25,934	11.41
2005	980,727.1	5,004	765	15.29	462,253	68,680	14.86
2006	1,463,351	5,747	839	14.60	625,320	114,922	18.38
2007	1,975,537	7,018	1047	14.92	1,022,725	144,830	14.16
2008	1,790,706	6,425	1011	15.74	706,543	105,849	14.98
2009	1,197,824	4,239	746	17.60	249,732	73,975	29.62
2010	1,309,001	5,484	1084	19.77	344,029	98,149	28.53

Source: World Investment Report (various issues) and author's own calculations

Table 2 Growth Trend of EMNEs' CBMAs, 2000-2010



Source: Author's own calculations based on UNCTAD World Development Report 2000-2011

2.3 Institution-based View

The theoretical roots of the institution-based view can be traced back to both economics (North, 1990) and sociology (Scott, 1995). The 1993 Nobel Prize Winner for Economics, Douglass North, gives institution the following definition:

“Institutions are the humanly devised constraints that structure human interaction. They are made up of formal constraints (rules, laws,

constitutions), informal constraints (norms of behaviour, conventions, and self-imposed codes of conduct), and their enforcement characteristics. Together they define the incentive structure of societies and specifically economies.” (North, 1990)

North (1990) indicates that the effectiveness of formal and informal constraints can come from different directions, such as government support and constraints, education levels and religions. Institutions reduce the uncertainty of firm and organization behaviours. Formal constraints such as law and policies can regulate the instability arising from informal social and common behaviours. Informal constraints can provide constancy to institutions when formal constraints fail.

Throughout the social sciences including economics, sociology, philosophy, politics, anthropology, psychology and geography, the term institution has been used widely. In sociology, Scott (1995) develops “three pillars” to measure the institution: regulative, normative and cognitive pillars. The regulative pillar stands for instrumental rules and laws to ensure the stability of the society, such as economic factors. The normative pillar refers to the social obligation to locate people’s roles and expectations to govern social behaviour. The cognitive pillar can be translated as social culture and ethnic nationality. Table 3 below gives details of the three pillars.

Table 3 Institutional Pillars

	Pillars of Institutions		
Theory element	Regulative	Normative	Cognitive
Basis of compliance	Expedience	Social Obligation	Taken for granted
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules, laws, sanctions	Certification, accreditation	Prevalence, isomorphism
Basis of legitimacy	Legally sanctioned	Morally governed	Culturally supported, conceptually correct

Source: Scott (1995)

With the traditional and broadly-speaking view of institutional economics by North (1990), the sociology version of institution theory has close interaction with the economic version of institution theory (Peng et al., 2009, Jormanainen and Kovesnikov, 2012, Kostova et al., 2008, Peng, 2002). The two pillars in Scott's definition – the cognitive and normative pillars – are conceptually close to each other and to culture, or the informal institutions in North's definition, while the regulatory pillar resembles formal institutions (Scott, 1995). Table 4 explains the interaction of institution theory with economics (North, 1990) and sociology (Scott, 1995).

Table 4 Dimensions of Institutions

Degree of Formality (North, 1990)	Examples	Supportive Pillars (Scott, 1995)
● Formal institutions	● Laws ● Regulations ● Rules	● Regulative
● Informal institutions	● Norms	● Normative
	● Cultures ● Ethics	● Cognitive

Source: Peng et al. (2009)

Though having different theoretical foci, they are broadly complementary. All different disciplinary theories propose one core issue: institution matters. In international business and management, Previous scholars suggest that the economic versions of institutional theory have gained influence (Kostova et al., 2008, Peng, 2002, Peng et al., 2008).. The growth of the firm roots in planned economies in transition: institutions, organizations, and strategic choice. Hence this study attempts to draw insights from institutional economic version of institution theory by North (1990), to understand EMNEs' CBMAs in DEs.

2.4 Institution Distance

Researchers focused on the host institution until the mid-1990s; since then more attention has been paid to differences between institutions and the role of institutional differences on international business (Peng et al., 2009). Kostova and Zaheer (1999) point out that institutional distance between host and home countries should draw more attention than an individual institution study, a call followed up increasingly by more studies (Berry et al., 2010, Busenitz et al., 2000, Ghemawat, 2001, Xu and Shenkar, 2002). Kostova and Zaheer (1999) also propose that the institution distance between host and home countries brings less FDI due to difficulties in organization practices and implementation. MNEs struggle with the pressure of operating in different institutional environments. These pressures may have significant influences on competitive strategy and human resource management (HRM) practices. MNEs often find it difficult to establish an efficient organization in host countries due to large institution differences (Busenitz et al., 2000).

Ghemawat (2001) develops a “CAGE” model based on institution theory by North (1990), and provides an extensive framework to categorise institution distances into four panels: cultural, administrative, geographic and economic distances. Cultural distance contains the social and human norms,

language and education differences between countries; geographic distance simply is the actual gravity distance between countries' major cities in miles or kilometres; administrative distance implies the political and bureaucratic environment differences between host and home countries; economic distance includes national economic differences such as GDP or the exchange rate. Elements in each distance are discussed in two columns in Table 5: the Country Pairs (Bilateral) category refers to comparable differences between host and home countries. The Country (Unilateral) category contains an individual country's specific feature, weakness or advantages. The four dimensions framework provides a systematic tool for institutional distances research.

Table 5 Bilateral and Multilateral Factors in the CAGE Framework

	Countries (Unilateral/Multilateral)	Country Pairs (Bilateral)
Cultural Distance	<ul style="list-style-type: none"> • Traditionalism • Insularity 	<ul style="list-style-type: none"> • Different languages • Different ethnicities; lack of connective ethnic or social networks • Different religions • Different values, norms, and dispositions • Lack of trust
Administrative Distance	<ul style="list-style-type: none"> • Nonmarket/closed economy (home bias vs. foreign bias) • Weak institutions, corruption • Lack of membership in international organizations 	<ul style="list-style-type: none"> • Lack of colonial ties • Lack of shared regional trading bloc • Lack of common currency • Political hostility
Geographic Distance	<ul style="list-style-type: none"> • Landlockedness • Lack of internal navigability • Geographic size • Weak transportation or communication links • Geographic remoteness 	<ul style="list-style-type: none"> • Physical distance • Lack of land border • Differences in climates/disease environments • Differences in time zones
Economic Distance	<ul style="list-style-type: none"> • Low per capita income • Economic size 	<ul style="list-style-type: none"> • Rich/poor differences • Other differences in cost or quality of natural resources, financial resources, human resources, infrastructure, information or knowledge

Source: Ghemawat (2001)

The CAGE model attempts to solve some remaining shortcomings. First, coverage of institutional characters becomes wider. For example, by adding

geographic distance into the CAGE framework, the distance effect of geographic-distant can be scaled into EEs to DEs research; second, insight into institutional characters becomes more precise. Some institutional distance can be time-varying. Previous formal and informal constraints may remain almost invariant, but others, such as economic factors, can change constantly, especially for EEs; rapid growing economic factors are one of their symptoms. CAGE takes the time-varying factors into consideration.

Although Ghemawat's framework complements some existing shortages, it is still inadequate to take other factors into consideration, which may affect CBMAs as well, such as the national innovation system and global connectedness. Recently, Berry et al. (2010) proposed an eight-dimension framework, which is considered the most comprehensive framework by far. Berry et al. (2010) not only summarize most of the previous institutional distance research, to develop and subdivide it into eight dimensions, but also include relatively comprehensive component factors within each distance dimension index. In addition, they also create some new distances, such as demographic distance, knowledge distance and global-connectedness distance. Financial distance is explicitly distinguished from economic distance, and political distance is clearly classified with administrative distance. With a further analysis of US outward foreign subsidiaries, they find either negative or positive cross-national distances influences on

managerial decisions. The empirical evidence of institutional distances influences proves the eight-dimension framework to be a more multiple dimensional approach. This research also adopts this framework to discuss institutional influences on EMNEs' CBMAs. The dimensions including geographic distance are explained in Table 6.

Table 6 Dimensions of Institutional Distance and Component Variables

Distance	Definitions	Component variables
Political distance (PD)	Differences in political stability, democracy and trade bloc membership	Democracy score Regional trade agreement Membership in WTO Democracy score
Economic distance (ED)	Differences in economic development and macroeconomic characteristics	GDP per capita Exchange rate Export (%GDP) Import (%GDP)
Financial distance (FD)	Differences in financial sector development	Private sector (%GDP) Stock market size/value (%GDP) Number of listed companies
Knowledge distance (KD)	Differences in patents and scientific production	Number of patents per 1 million population Number of scientific articles per 1 million population
Global-connectedness distance (GCD)	Differences in tourism and internet use	International tourism expenditure (%GDP) International tourism receipts (%GDP) Internet users per 1000 people
Demographic distance (DD)	Differences in demographic characteristics	Life expectancy at birth (years) Birth rate Population under 14 (%) Population above 65 (%)
Administrative distance (AD)	Differences in colonial ties, language, religion and legal system	Colonizer-colonized link Common language (%Population) Common religion (%Population) Legal system
Cultural distance (CD)	Differences in attitudes towards authority, trust and individuality, and importance of work and family	Hofstede's 4 cultural dimensions: Power distance Uncertainty avoidance Individualism Masculinity
Geographic distance (GD)	Great circle distance between geographic centre of countries	Great circle distance

Source: Berry et al. (2010)

Chapter 3 How Institutional Distance Matters in the EMNEs' CBMAs in the OECD Countries?

3.1 Introduction

Cross-border mergers and acquisitions (CBMAs) have long been used by firms as a prevalent strategy for international strategic expansion. Technological development and the increasing globalization of business have heightened the opportunities and challenges to CBMAs. For many years following World War II, multinational enterprises (MNEs) from the developed economies (DEs) fuelled the growth in CBMAs. The landscape was dominated by North American and European MNEs, then Japanese MNEs joined the club (Guillén and Garc á-Canal, 2009). Up until the early 1980s, FDI flows originating in emerging economies (EEs) were negligible (Malhotra et al., 2009). Since 1990s, MNEs from emerging economies (EMNEs) have increasingly proliferated in the global landscape (Table 1).

EMNEs are different from MNEs from DEs (DMNEs) in a number of ways, including size, technology and knowledge, liabilities in international markets, motives, and government interference in business activities (Guillén and Garc á-Canal, 2009, Goldstein and Pusterla, 2010, Luo and Tung, 2007, Cuervo-Cazurra and Genc, 2008). EMNEs tend to be smaller in

size and have less cutting-edge technologies and less advanced knowledge. EMNEs, similar to DMNEs, suffer from liability of foreignness, but they also have to overcome the hurdle of liability of country of origin, a potential disadvantage linked to perceived weakness and lack of global dominance of the home country economy (Cuervo-Cazurra and Genc, 2008). DMNEs use CBMAs to access resources and new markets and to improve efficiency, sometimes to seek strategic assets, but EMNEs' motives are more likely to be strategic-assets seeking (Luo and Tung, 2007, Kedia et al., 2012). EE governments are more likely to influence EMNEs while DE governments are more likely to leave DMNEs to market mechanisms.

Despite the rich literature in CBMAs across the boundaries of accountancy, finance, economics and management (e.g. Anand and Kogut, 1997, Erel et al., 2012, Shimizu et al., 2004), CBMAs by EMNEs have received little attention until recently (Jormanainen and Koveshnikov, 2012). Given the overall magnitude and the rapid growth of CBMAs by EMNEs and the different characteristics of EMNEs and DMNEs, it is crucial to understand what drives EMNEs' CBMAs in DEs. However, existing empirical studies tend to focus on EMNEs' expansion into developing countries (Jormanainen and Koveshnikov, 2012). To fill this research gap, the study takes the institutional approach and investigates how institutional distance between home and host countries (henceforth ID) affects EMNEs' CBMAs in the

OECD countries, the so called “upmarket acquisitions” (Stucchi, 2012). Upmarket acquisitions are important for EMNEs as they allow them quick access to resources and capabilities available in DEs, reduce gaps with their competitors and build credibility to attract employees and suppliers (Stucchi, 2012, Luo and Tung, 2007, De Beule et al., 2014). ID is particularly important for MNEs operating in different institutional contexts (Meyer et al., 2009).

While firms and capital, even labour, are increasingly mobile, institutions tend to be internationally immobile (Mudambi and Navarra, 2002). There are substantial differences in institutional contexts in EEs and DEs (Hoskisson et al., 2000). DEs are often trusted to have “invisible, efficient and supporting institutions” (Peng, 2002). In contrast, institutions in EEs tend to be considered weak and lack of market-support. EMNEs, when undertaking CBMAs in the OECD countries (a group of DEs), must accommodate institutions that vary between countries as differences in institutions offer opportunities and challenges to them from fully realizing their strategic objectives. Several studies have attempted to explain CBMAs from the institutional perspective (Zhang et al., 2011, Stucchi, 2012, Lin et al., 2009), but most are limited in failing to take into account the multi-dimensional nature of the construct or in the geographic scope by only studying one home country or one host country. I offer the conceptual

framework to explain how the individual dimension of ID influences CBMAs by EMNEs in the OECD countries and test hypotheses using a multi-home and multi-host country dataset.

Though the term institutional distance has been extensively used in the literature (Berry et al., 2010, Eden and Miller, 2004, Xu and Shenkar, 2002, Kostova, 1997), most scholars do not pay attention to what is inside this black box. There are limited efforts on identifying the dimensions of ID. To the best of my knowledge, only two studies, Ghemawat (2001) and Berry et al. (2010), attempt to provide a comprehensive conceptualization of distance. The former proposes three dimensions of non-geographic distance: cultural, political and economic distance, while the latter is more wide-ranging to include another five dimensions, i.e. financial, knowledge, global-connectedness, demographic and administrative distance. In this study, I link the ID research by Berry et al. (2010) to EMNEs' CBMA decisions in the OECD countries. By studying eight ID factors in addition to geographic distance, I offer a more comprehensive understanding of the role of ID in one strategic decision engaged in by EMNEs: the CBMA market location decision.

This study contributes to the existing CBMA literature in several ways. Theoretically, I develop a conceptual framework that draws on the

institution-based view for investigating the impact of eight dimensions of ID between the home and host countries on CBMAs by EMNEs. In so doing, this study moves away from a simplistic way of treating ID as a black box, which is often the feature of existing studies, to a clear recognition of the multi-dimensional nature of the concept. Different dimensions of ID impact CBMAs in different ways. I develop hypotheses of positive relationships between political, economic and knowledge distance, but negative relationships between financial, global-connectedness, demographic, administrative and cultural distance and the number of CBMAs by EMNEs in DEs.

Empirically, this study tests hypotheses on a dataset covering multiple-host and multiple-home countries in recent years when EMNEs have substantial activities in DEs (EMNEs from 43 EEs in 26 DEs during 2001-2011). The wide geographic coverage of the sample across a relatively long time period provides potentially good variance to test for varying impacts of the different dimensions of ID under study. The high levels of variance also make it unlikely that the results are driven by the idiosyncrasies of a specific home or host country. The findings help provide new insights into how EMNEs undertake CBMAs in different institutional contexts and broaden the understanding of complicity associated with ID in strategic location decisions of EMNEs. These findings also help explain the apparent

contradictions in existing studies which often employ a single measure of ID.

The rest of the chapter is structured as follows. Section 3.2 provides an overview of existing literature on institutional distance and location choice of EMNEs' CBMAs. Following on from the review, I propose hypotheses on the impact of institutional distance on the CBMAs by EMNEs in DEs. Section 3.3 describes data, variables and methodology. Section 3.4 discusses empirical results and findings, followed by the conclusion in section 3.5. Contribution and implications are also discussed in the final section.

3.2 Literature Review and Hypothesis Development

Institutions are defined as the rules of the game in a society that provide stability, reduce uncertainty and alleviate information complexity in economic exchanges (North, 1990). These rules are humanly devised constraints that structure the way in which organizations (e.g. political bodies, economic agents and social actors) interact with each other and adapt to changing environments by making strategic choices such as compliance, co-operation and defiance (Oliver, 1997). Institutions include both formal and informal components. Formal institutions are explicitly created, usually by legislation and are composed of written rules,

regulations, laws and contracts that give structure to society. Informal institutions are the internally enforced modes of conduct in a society that impose constraints through customs, norms and cultures. Formal and informal institutions are strongly intertwined. Formal institutions are usually embedded in the settings of informal institutions, while informal institutions can also be shaped by formal institutions. Formal institutions may sometimes change abruptly, but many aspects of informal institutions are slow moving.

Institutions vary across countries because of their path-dependent nature (Makino et al., 2004). Despite the rapid pace of globalization, differences between institutions in different countries have not been attenuated (Meyer et al., 2011). DEs tend to have developed institutions characterized by well-developed factor markets, few government interventions, and effective mechanism for contract enforcement. The costs of doing business there are likely to be low, which facilitates economic activities. EEs tend to have less advanced or incomplete institutions and local firms face constraints resulting from insufficiently developed market-supporting institutions and additional hazards, restrictions and costs.

Institutions are important when it comes to EMNEs' location choice in the OECD countries. The stability and efficiency of institutions determine the

transaction and co-ordination costs of production and innovation, therefore, determine and guide business conduct (Meyer et al., 2011). The institution shapes the costs of doing business in a particular market, and consequently, an investor's preference for the location for new investment opportunities. When undertaking CBMAs, MNEs tend to compare the relative position of their home to their host country institutions. A conventional argument is that when entering institutionally distant countries, firms are challenged to bridge the differences between the home and the host country markets as the institutional distance creates barriers to social networks in local business communities, access to intangible assets and know-how shared between headquarters and host country subsidiaries and between the host countries subsidiaries and local firms. This increases the liability of foreignness that firms face in foreign markets and the uncertainties of international transactions (Cuervo-Cazurra and Genc, 2011). That is, ID can raise the risk of capitalizing on the opportunities in a host country market. However, all ID factors may not result in the same disadvantages to MNEs. Therefore, the study challenges this established claim and argue that given the multi-dimensional nature of the ID concept, some distance dimensions may actually have a positive impact on CBMAs by EMNEs in DEs.

There are limited efforts on identifying the dimensions of ID. To the best of my knowledge, only two studies, Ghemawat (2001) and Berry et al. (2010),

attempt to provide a comprehensive conceptualization of distance. Berry et al. (2010)'s framework encompasses all dimensions covered by Ghemawat (2001) and five more; that is, eight dimensions, i.e. political, economic, financial, knowledge, global-connectedness distance, demographic, administrative and cultural distance. Table 6 shows a summary of the definitions of these dimensions of institutional distance. These definitions are expanded below.

3.2.1 Political Distance (PD)

The formal institutional environment emphasizes the influence of political systems. Political factors have long been recognized as important when MNEs make CBMA location decisions (Dunning and Lundan, 2008). They are of particular concern to EMNEs because of the prominence of political influences in their home countries. The specific regulatory policies enacted by home country governments may encourage firms to engage in overseas expansion if host country governments are straightforward, consistent and liberal as is the case in DEs. EE governments promote policies to help guide outward FDI in the hope that CBMAs can bring these firms improvements in international competition (Liu and Buck, 2009). For example, Chinese firms are expected to respond to their government's development plan by building and/or acquiring strategic assets in order to compete successfully in

the global landscape. But the question is: what kinds of political regimes of host DEs will be more attractive to EMNEs? Since CBMAs are fraught with information asymmetry and the potential for opportunism, EMNEs will likely choose a political institution that will help reduce transaction costs and provide incentives that promote CBMAs.

By definition, a firm is most familiar with its domestic political regime and is likely to find that it is easier to navigate in one that is similar to that of its home country. Similar rules make legitimacy building easier in a host country. Institutional theory suggests that firms gain a “common understanding of what is appropriate and fundamentally meaningful behaviour” as a result of isomorphic (coercive, normative and mimetic) pressures embedded in different institutional contexts (Zucker, 1983). MNEs must align their practices with the host country political institutions when seeking acceptance as legitimate entities (Davis et al., 2000, Kostova and Zaheer, 1999). Working under different political regimes is likely to give rise to high costs of establishing new relationships with political players and will inhibit potential transactions because of increased search, negotiation, and enforcement costs. Hence, it is reasonable to expect that the more similar the political institutions between the home and host countries are, the higher will be the number of CBMAs.

On the other hand, following the institutional escapism view (Luo et al., 2010, Boisot and Meyer, 2008, Goldstein and Pusterla, 2010, Tolentino, 2010, Witt and Lewin, 2007), EMNEs go abroad in order to seek a better institutional environment for their business. EMNEs experience extensive government interference in business activities, high regulatory uncertainty and weak intellectual property rights protection at home, which brings high transaction costs and limits their development. To create advanced resources and capabilities, they need to tap into well-established institutions that ensure transparency and contract enforcement and warrant low information asymmetries in the host country. Secondly, effective political institutions can prompt CBMAs with less time and money consumed on dealing with local governments and rules; as a result, reduce transaction costs of doing business in the host country (Kaufmann et al., 2007). Stable and open-policy institutions attract more inward M&As in the OECD countries (Hyun and Kim, 2010). Thus, the better the political institutions of the host country relative to that of the home country, the more attractive it will be to EMNEs.

In their study of M&As in 49 home and 49 host countries between 1990 and 1999, Rossi and Volpin (2004) find that there are positive correlations between CBMAs and PD proxied by differences in accounting standards (an index of the quality of accounting disclosure) and investor protections (a measure of the effective rights of minority shareholders). Malhotra et al.

(2009) employ CBMA data by EMNEs from 18 EEs during 1990-2006 and show that the PD measured by government effectiveness from Kaufmann et al. (2007) is positively associated with the number of CBMAs by EMNEs. Turning to individual country studies, through examining 1,324 Chinese CBMAs between 1982 and 2009, Zhang et al. (2011) discover that good institutional quality of host countries proxied by political risk measures benefits Chinese overseas acquisitions. Chinese MNEs are constrained by political institutions with low environmental munificence, continuous economic liberalization, and gradual institutional transition. The substantial roles played by governments and CBMAs in DEs represent a means to acquire strategic assets, as a result of China's unique institutional environment (Deng, 2009, Luo and Tung, 2007). Thus, following from this theoretical discussion and empirical evidence, the proposition is made that:

H1: The larger the political distance between home and host countries, the more CBMAs are undertaken by EMNEs in DEs.

3.2.2 Economic Distance (ED)

ED represents the economic difference between EEs and DEs and is often considered to reflect differences in economic development, consumer income, costs and quality of resources, inflation, and trade activities (Berry et al., 2010). Conventional theory suggests that MNEs undertake

exploitative FDI to transfer firm-specific assets (FSAs) of proprietary value across borders and use these as an advantage to seek markets and resources (Dunning and Lundan, 2008). Hence, relative to the home country, a similar economic environment in the host country facilitates CBMAs (Malhotra et al., 2009). Firms typically develop their FSAs based on the resource endowments of the home country. Operating in countries with similar economic characteristics to their home market gives MNEs the opportunity to take advantage of similar resources available in the host country and transfer skills and knowledge from home at low costs. Mitra and Golder (2002) further argue that similar economic distances also reflect similar consumption patterns and similar environments under which MNEs are exposed to similar marketing strategies. Therefore CBMAs are negatively associated with ED.

However, EMNEs' upmarket acquisitions are often of explorative nature involving gaining new information, knowledge, and other strategic assets from DEs (Kedia et al., 2012). The technological level of a country is generally related to its economic development (Tsang and Yip, 2007). DEs offer advanced knowledge reservoirs, educated workforces, and infrastructure that promote and protect knowledge development (Kedia et al., 2012). For EMNEs to become or remain globally competitive, they must gain access to knowledge and other strategic assets in economically-distant

countries. ED also provides a strong basis for differentiation. Merging with or acquiring a DE firm in an economically-distant country gives an EMNE the opportunity to reach out to sources of unique, diverse and non-redundant knowledge. As a result, the higher is the level of ED, the higher is the scope for learning and value creation; hence, the larger is the number of CBMAs by EMNEs. Of the few empirical studies on ED and CBMA, a positive relationship is found in Mitra and Golder (2002), Malhotra et al. (2009), and Rossi and Volpin (2004). Therefore, the study formulates the following hypothesis:

H2: The larger the economic distance between home and host countries, the more CBMAs are undertaken by EMNEs in DEs.

3.2.3 Financial Distance (FD)

FD refers to the differences in financial sector development and is mainly related to the equity and credit markets in the home and the host countries (Berry et al., 2010). The financial system is important for financial intermediation, the efficient allocation of capital, information asymmetry reduction, and risk management (Mirkin et al., 2013). CBMAs are often financed in the home country. Financially deeper markets that are more liquid and better functioning provide firms the financial means necessary to undertake investment projects that they might otherwise have to forego and

reduce information acquisition costs, hence, facilitate CBMAs (Di Giovanni, 2005). An established financial infrastructure also reduces the MNE's exposure to exchange rate risks (Bevan et al., 2004). Conversely, underdeveloped financial markets hold back entrepreneurial development and may cause problems for firm competitiveness, hence hinder outward CBMAs. However, CBMAs also require attention to host country financial systems. A financial market of host country systems supports acquirers to restructure and reallocate the assets and resources of target firms (Capron and Guillén, 2009). Therefore, EMNEs must attend to the proximity between the financial systems of the home and the host countries. If their home country's financial system is convergent to a well-developed one in a DE, a larger number of CBMA deals can be expected. In contrast, a large FD inhibits CBMAs as there could be a mismatch between EMNEs' strategic needs and financial means. Thus, the following hypothesis can be made:

H3: The smaller the financial distance between the home and the host countries, the more CBMAs will be undertaken by EMNEs in DEs.

Despite the significance of financial factors in CBMAs, to the best of my knowledge, only a few studies give attention to this. From only the home country perspective, Hyun and Kim (2010) and Di Giovanni (2005) find that financial markets of home countries have a strong positive association with

CBMAs. Coeurdacier et al. (2009) investigate the development of financial markets of both home and host countries of MNEs and argue that deeper financial markets of both countries matter to CBMAs. However, there is no study investigating the role of FD, as far as I know.

3.2.4 Knowledge Distance (KD)

KD captures the differences between countries' capacities in creating knowledge and innovation. Different countries have different levels of knowledge (Nelson, 1993) because knowledge development depends on location-specific factors, such as the national innovation system, the education system, and the infrastructure for knowledge dissemination. For example, Cantwell (1989) finds evidence of a path dependence in technological investments for several countries. As argued above, the most recognized reason for EMNEs undertaking CBMAs in DEs is to acquire new knowledge and new capabilities. Knowledge-seeking activities are fundamental drives of competitiveness (Eden and Miller, 2004). CBMAs are particularly important for firms that intend to obtain tacit and organizationally embedded resources as such knowledge is hard to reach and understand through other means such as licensing (Zaheer and Hernandez, 2011). Thus host countries with knowledge advantages attract CBMAs. This thesis has received strong support in the literature. Kogut and

Chang (1991) show that Japanese FDI is attracted to the US because of the latter's R&D base. Berry (2006) confirms that the strong technological capability of the US attracts Japanese knowledge-seeking FDI, but it is the leading Japanese technological firms that are investing in R&D in the US. Nachum et al. (2008) use a sample of 556 US MNEs making 138,050 location choices in 119 countries and discover that a country's proximity to world knowledge affects the likelihood of it being chosen as an FDI location. Shan and Song (1997) find that in biotechnology, foreign firms make equity investments in US firms with large patent stocks in order to draw upon that local knowledge.

This study argues that KD is also of importance in influencing MNEs' location decisions. A more distant country from a knowledge perspective offers sources for more novel and diverse ideas. The further the MNE goes from its traditional and original knowledge base, the more it is likely to encounter novelty in ideas (Zaheer and Hernandez, 2011). This yields the following hypothesis:

H4: The larger the knowledge distance between the home and the host countries, the more CBMAs are undertaken by EMNEs in DEs.

While this idea has been documented in prior research, few studies explicitly test the positive relationship between KD and the number of

CBMAs. Anand and Kogut (1997) employ the difference between the home and the host countries' R&D intensity and find this variable to be negative, but statistically insignificant. Pugel et al. (1996) pay attention to both the home and the host country R&D, but not the difference between the two, and find that the share of industry value produced by foreign firms increases with host country R&D, but not with home country R&D.

3.2.5 Global-Connectedness Distance (GCD)

GCD is a concept that has received little attention in the FDI and the CBMA literature. GCD reflects the heterogeneity between countries in their connectedness to the rest of the world and captures the extent to which a country interacts with, obtains information from, and diffuses activities to other countries (Oxley and Yeung, 2001, Berry et al., 2010). MNEs benefit from more accurate and faster exchanges with economic agents in host countries.

The main channels through which countries interact with each other are tourism and internet use. International tourism gives prospective investors the opportunity to obtain first-hand information about the country and reduces information asymmetry. Sanford and Dong (2000) and Goldberg et al. (2005) find that there is a positive relationship between tourism and FDI

in the US. The internet provides the potential for transforming businesses and making them more efficient and innovative (Guillén and Suárez, 2005). It allows firms to overcome barriers and improve their ability to participate in international business and integrates businesses in different countries and facilitates knowledge transfer. Oxley and Yeung (2001) find that more internet use leads to wider cross-country business activities. Gholami et al. (2006) confirm that a higher level of information and communication technology use and investment leads to an increase in inward FDI.

GCD is important when MNEs engage in CBMAs. Larger distance is associated with higher levels of information asymmetry. Information necessary in aiding senior managers to plan and execute their CBMA activities would be more difficult and costly to acquire in distant countries than in close countries. In turn, it is often problematic to evaluate the targeting firms and monitor and enforce contracts in distant countries, making CBMAs in such countries risky. On the other hand, acquirers with informational advantages can avoid competition, hence buying undervalued assets. Lower levels of GCDs offer MNEs the opportunities to access the information needed for profitable acquisitions and to increase the chance of finding the optimal targets, thus making these host countries more valuable investment locations than they would be otherwise. This study therefore proposes the following hypothesis:

H5: The smaller the global-connectedness distance between the home and the host countries, the more CBMAs will be undertaken by the EMNEs in DEs.

3.2.6 Demographic Distance (DD)

Studies on the role of demographic distance in CBMAs are very limited, if any. However demography including age structure and life expectancy is a recognized as dimensions of cross-country differences (Whitley, 1994, Berry et al., 2010). DD can affect consumer behaviours, market attractiveness to firms, and their potential growth. The lifecycle hypothesis states that people have different consumption and investment patterns at different stages of their lives (Ando and Modigliani, 1963, Shefrin and Thaler, 1988). Hung et al. (2007), for example, identify three generation cohorts in China: Red Guards influenced by the Cultural Revolution in 1966-1979, Modern Realists coming of age during the Economic Reform (1980-1991) and Global Materialists born after the Cultural Revolution and the implementation of the one-child policy and how they hold different behaviours. The Red Guards are likely to be pessimistic in their outlook and behave conservatively. The Modern Realists are entrepreneurial and seek novelty. The Global Materialists have stronger orientation towards conspicuous consumption than the generations before them. Further, they

find Chinese and Americans of similar ages (and life cycle stages) hold different values. Red Guards in China and baby boomers in the US were born around similar periods but have different spending patterns on homes and cars. Such DD across countries have fundamental implications for MNE strategy. It is not hard to imagine complications that would likely arise when taking a set of business practices and routines established following certain demographic characteristics into an economy that possesses a different demography. On the other hand, EE and DE country pairs that share similar demographics may experience more CBMAs. Therefore, the following hypothesis is proposed:

H6: The smaller the demographic distance between the home and the host countries, the more CBMAs will be undertaken by EMNEs in DEs.

3.2.7 Administrative Distance (AD)

AD underlines the differences between countries in bureaucratic patterns due to colonial ties, languages, religions, and legal systems (Berry et al., 2010). Makino and Tsang (2011) argue that informal ties between countries developed through colonization, shared language, shared religion, and common origin of the legal system are path-dependent and tend to have persistent effects. They create an incentive structure for economic exchanges. When countries share colonial history, language, religion and

legal systems, there is little or no uncertainty associated with transactions. MNEs, therefore, may find it relatively easy to deal with CBMAs in both ex-ante assessments of target values and ex-post integration. Small AD also enhances the social relationships between MNEs and local stakeholders; as a result, MNEs are likely to find that with relatively low information costs, it is relatively easy to gain legitimacy in the host country that is closer to the home country in an administrative dimension (Konara and Wei, 2013). The above arguments, to a large extent, have received support in the existing literature. Hejazi and Ma (2011) show all components of AD except colonial ties affect inward and outward FDI stocks. A similar result is found by Ahern et al. (2013) in examining CBMAs. Oh et al. (2011) examine all components of AD except religion. Though the coefficients on colonial ties and language have expected signs, sharing a common legal system appears to have a negative impact on FDI, albeit with weak statistical significance. Konara and Wei (2013) find negative effects of language and religion distance on FDI. Other studies that examine one or all of the components of AD include Coeurdacier et al. (2009), Lubatkin et al. (1998), and Rossi and Volpin (2004), Di Giovanni (2005), Hyun and Kim (2010). These, too, reveal that small AD facilitates bilateral investment and other business activities. Therefore, I posit that:

H7: The smaller the administrative distance between the home and the host countries, the more CBMAs will be undertaken by EEs in DEs.

3.2.8 Cultural Distance (CD)

CD is the most widely studied concept in CBMA research. CD reflects how individuals from different countries observe and react differently to certain behaviours and their attitudes towards authority, trust, family and work (Berry et al., 2010). Strategic decisions and actions of top managers are often influenced by their cultural background (Hofstede, 1980). Coeurdacier et al. (2009) argue that CD can be important in affecting the acquirers' perceptions of targeted firms in CBMAs. High CD can be perceived as involving high post-merger management costs (Kogut and Singh, 1988, Ahern et al., 2013). The perception of overcoming time-consuming and costly inter-cultural conflicts and co-operation reduces the willingness of MNEs undertaking CBMAs (Weitzel and Berns, 2006).

Further, differences in CD add to the liability of foreignness, information and communication costs, and uncertainties of international transactions (Eden and Miller, 2004). CD is closely linked to information asymmetry that exists between the negotiating parties to a transaction. Following transaction cost economics, information asymmetry is positively associated with the seller's incentives to misrepresent the value of the item being offered up for sale, a very important issue for CBMAs in the valuation of assets.

Because of CD, MNEs may find it is more difficult to establish social legitimacy than regulative legitimacy (Quer et al., 2012, Kang and Jiang, 2012). CD may prolong the host country's "continuing suspicion towards the MNE" (Kostova and Zaheer, 1999) and adversely affect the MNE's legitimacy building (Luo and Shenkar, 2006). Given the extent of operational interactions with economic agents in different countries, CBMAs are particularly sensitive to cultural distance. Prior empirical studies confirm that cultural proximity increases the number of CBMAs between countries (Malhotra et al., 2011, Shimizu et al., 2004, Coeurdacier et al., 2009, Malhotra et al., 2009, Ahern et al., 2013). Hence, I propose the final hypothesis:

H8: The smaller the cultural distance between home and host countries, the more CBMAs are undertaken by EEs in DEs.

3.3 Data and Methodology

This analysis is based on data gathered from two sources: the SDC Platinum Database and Berry et al. (2010). The SDC reports CBMA data completed by EMNEs in the OECD countries during the 01/01/2001-31/12/2011 period. Berry et al. (2010) provide data for eight dimensions of institutional distance between acquiring and targeting countries. Eight countries (Chile, Czech Republic, Estonia, Hungary, Mexico, Poland, Slovak Republic and

Turkey) considered emerging economies became members of the OECD during the sampling period. Given the research interests, they are retained in the EE category. The full list of the EEs this study considered is provided in the Appendix 1. The final sample this study worked with contains 1,895 completed CBMA transactions by EMNEs from 43 EEs in 26 OECD countries during the period of 2001-2011.

In line with extant research (e.g. Coeurdacier et al., 2009, Di Giovanni, 2005, Hyun and Kim, 2010, Kiyamaz, 2004, Malhotra et al., 2009, Malhotra et al., 2011, Manchin, 2004, Markides and Ittner, 1994, Rossi and Volpin, 2004, Uddin and Boateng, 2011, Zhang et al., 2011), I use the number of completed CBMA deals by EMNEs from country *i* to an individual OECD country *j* in year *t* as the dependent variable. The SDC also reports transaction values; however, information is rather incomplete for EMNEs. Therefore, I used the number of CBMA deals, rather than their values, as the dependent variable, as the former is a better indicator of firms' behaviour (Malhotra et al., 2009).

I combined the number of CBMA deals with the independent measures of institutional distance provided by Berry et al. (2010). In addition to the eight dimensions of institutional distance, geographic distance (GD) is included in the analyses because it has long been recognized as important to CBMA

(Zaheer and Hernandez, 2011, Hyun and Kim, 2010). Table 6 shows the components of the eight dimensions of institutional distance and geographic distance. Each distance index is integrated and calculated with different component variables; that is, the distance index not only tries to cover the most popular variables, but also considers the calculation of distances between pairs of countries. The final sample includes 785 paired-country observations.

The dependent variable, the number of CBMA deals, is a count data series, which takes discrete integer values and presents considerable overdispersion (the variance being greater than the mean). Thus, a generalized linear model (GLM) assuming a Poisson or negative binomial distribution is called for. A Poisson process describes events that happen independently and randomly in time. The probability that the number of CBMA deals (y_i) will occur given a set of explanatory variables x_i can be represented by the equation.

$$f(y_i | \mathbf{x}_i) = \frac{e^{-\lambda_i} \lambda_i^{y_i}}{y_i!}, \quad y_i = 0, 1, 2, \dots$$

However, the Poisson model needs to meet the requirement of equality between its first two moment conditions. Because of the unobserved effects, such as the uncertainty inherent in undertaking CBMA deals, a problem of ‘overdispersion’ may occur, whereby the conditional variance exceeds the conditional mean. In this case, a negative binomial model can be used to overcome the problem as it offers a more efficient estimator than a Poisson

model. Both models can be estimated by maximum likelihood estimation.

3.4 Results and Discussion

Table 7 presents the descriptive statistics and correlation analysis. A review of the correlations between the explanatory variables indicates that multicollinearity is unlikely to be an issue except between ED and KD given their slightly high correlation coefficient. However, VIF (variance inflation factor) scores range between 1.01 and 2.24, which is much lower than the rule of thumb threshold value of 10. I therefore conclude that multicollinearity is not a problem in this analysis.

Table 7 Descriptive Statistics and Correlation Matrix

Variable	Mean	s.d.	PD	ED	FD	KD	GCD	DD	AD	CD
Number of CBMAs	2.414	4.003								
Political distance (PD)	162.138	76.726								
Economic distance (ED)	13.644	9.450	0.340							
Financial distance (FD)	7.291	5.659	0.097	0.131						
Knowledge distance (KD)	11.475	10.902	0.448	0.650	0.257					
Global-connectedness distance (GCD)	46.162	1097.708	-0.001	0.003	0.013	-0.003				
Demographic distance (DD)	14.856	14.403	-0.165	-0.176	-0.028	-0.142	-0.007			
Administrative distance (AD)	16.742	20.244	-0.138	-0.099	-0.132	-0.070	-0.013	-0.063		
Cultural distance (CD)	70.511	23.629	0.397	0.403	0.085	0.307	0.049	-0.048	-0.285	
Geographic distance (GD)	6692.606	3828.563	0.405	0.300	0.071	0.358	0.040	0.002	-0.251	0.343

Table 8 presents the empirical findings using a number of different techniques including (1) ordinary least squares, (2) Poisson, and (3) Negative Binomial models. All three specifications (1)-(3) yield qualitatively similar results. The likelihood-ratio tests for overdispersions are statistically significant, however, implying that the negative binomial models should be the relevant bases for the analysis.

Table 8 Estimation Results of Determinants of CBMAs

	(1)	(2)	(3)
	OLS	Poisson	Negative Binomial
PD	0.009 ^{***} (0.002)	0.004 ^{***} (0.001)	0.003 ^{***} (0.001)
ED	0.026 [*] (0.015)	0.008 [*] (0.005)	0.010 [*] (0.005)
FD	-0.005 (0.025)	-0.0003 (0.010)	-0.004 (0.007)
KD	0.039 ^{**} (0.019)	0.012 ^{**} (0.005)	0.012 ^{**} (0.005)
GCD (x 10 ⁻³)	-0.581 ^{***} (0.159)	-0.305 ^{***} (0.005)	-0.302 ^{***} (0.004)
DD	-0.0005 (0.006)	-0.0006 (0.003)	0.0004 (0.002)
AD	-0.015 ^{***} (0.004)	-0.008 ^{***} (0.002)	-0.006 ^{***} (0.002)
CD	-0.011 (0.008)	-0.004 (0.003)	-0.003 (0.002)
GD (x 10 ⁻³)	0.408 (0.461)	0.174 (0.166)	0.006 (0.115)
Year Effects	YES	YES	YES
N	785	785	785

Robust standard errors in parentheses.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$, # < 0.12

The results show that the PD, ED, KD, GCD and AD are statistically significant with their expected signs, while the FD, DD, CD and GD are statistically insignificant. These confirm that, when EMNEs undertake CBMAs in DEs, they pay particular attention to distance between their home and their host countries in the areas of politics (political stability, democracy and trade bloc membership), economics (economic development and macroeconomic characteristics), knowledge (patents and scientific production), global connectedness (tourism and internet use), and administration (colonial ties, language, religion, and legal system), supporting H1, H2, H4, H5 and H7. Cross-country differences in financial sector development, demography, culture and geography have little impact in their location decisions. Thus the sample fails to support H3, H6 and H8. Discussion of these results in detail is below.

Theoretically, PD can encourage or discourage CBMAs from EEs to DEs. The results indicate that EMNEs undertake CBMAs in the OECD countries in order to escape the political constraints that they face at home, for example extensive government intervention, high regulatory uncertainty, insufficient intellectual property rights protection and other legal protections, and weak market monitoring mechanisms. At the same time, they tap into well-established institutions which support them in their acquisition and assimilation of advanced resources and capabilities and reduction of

transaction costs. Hence the larger the PD is, the higher will likely be the number of CBMAs.

The impact of ED and KD on CBMAs is positive, confirming the strategic-asset seeking or knowledge-seeking nature of EMNEs in the OECD countries. CBMAs help EMNEs access target firms' strategic assets, such as advanced proprietary technology, production knowledge, managerial expertise, patents, brands and goodwill, that are valuable to them in upgrade existing FSAs to higher standards. For these EMNEs, the larger ED and KD imply that more opportunities are available in the host countries.

GCD and AD act as significant impediments to EMNEs' CBMAs, while similarity between home and host countries in both dimensions gives EMNEs confidence to undertake more CBMAs in the OECD countries. When EEs are well connected to the rest of the world, they are more open and active in international business (Guillén and Suárez, 2005). Global connectedness offers EMNEs wide selection of targets and reduces time and costs associated with CBMAs. Both tourism and the internet provide channels for them to understand the rest of the world. The internet is particularly more powerful as it breaks many constraints associated with time and space and makes information circulation extensive and transparent

(Oxley and Yeung, 2001). The finding of the negative coefficient on AD is unsurprising and in line with the existing literature as shown in section 3.2.

Among the eight dimensions of institutional distance, EMNEs appear to pay little attention to FD, DD and CD. Although EMNEs can raise funds in host countries, given their inexperience with international financial markets and their strong domestic bases for finance, they are less likely to pay attention to FD between the home and the host countries. EMNEs operating in the OECD countries tend to be more of strategic-assets-seeking than market-seeking types; therefore, DD is of little relevance. Though the coefficient on CD is statistically insignificant, it is likely that its effects have been picked up by AD through colonial ties, common language, common religion, and similar legal systems. It is similarity in history, language, religion and the law that matters to EMNEs, rather than the distance in power, uncertainty avoidance, individualism, and masculinity.

Finally, the result finds very little impact of GD on CBMAs, which is consistent with Coeurdacier et al. (2009), but contradicts others' findings (Di Guardo et al., 2013, Di Giovanni, 2005, Hyun and Kim, 2010, Malhotra et al., 2009). Coeurdacier et al. (2009) argue that the improvements in information technologies may reduce information costs substantially which render GD irrelevant. For the sample, given the geographical locations of

DEs and EEs, it is likely that the benefits of political systems, economic development and knowledge stock of the OECD countries, close integration with the rest of the world, close colonial ties and shared common language, religion and legal systems have overriding effects on EMNEs' location decisions, regardless how far DEs are away from their home countries.

3.5 Conclusion

The concept of institutional distance between the home and the host countries of MNEs has increasingly attracted researchers' attention (Eden and Miller, 2004, Xu and Shenkar, 2002, Kostova, 1997). Theoretically, institutional distance can be argued to affect EMNEs' CBMA location decisions positively or negatively. The extant literature in this area has not agreed on how to operationalize institutional distance. The concept is often boiled down to political, economic, cultural, or administrative dimensions and overlooks other dimensions such as financial, knowledge, global-connectedness and demographic characteristics of the home and host countries. Based on Berry et al. (2010) comprehensive conceptualization of institutional distance, the aim of this study is to explore how individual components of institutional distance has a meaningful and theoretically discernible impact on EMNEs' CBMAs in DEs. The concurrent role of multiple dimensions of institutional distance is investigated based on a

sample containing 1,895 completed CBMA transactions by EMNEs from 43 EEs in 26 OECD countries during the 2001-2011 period.

My choice to focus on EMNEs' CBMAs in DEs is based on two reasons. First, the existing literature on CBMAs has focused primarily on the traditional players, i.e. the DMNEs. EMNEs are increasingly becoming important players. It is important to know how they react to institutional distance. Second, EEs and DEs are characterized by substantial differences in terms of institutions. In DEs, the established institutions provide sufficient protection for market behaviours and knowledge development, while in EEs, the institutions are fragile and legal protections are inadequate, there is potentially a high threat of opportunism and local firms may have less confidence in knowledge creation. EMNEs investing in the OECDs through CBMAs represent a challenging but interesting scenario.

The main theoretical contribution of my study is to offer a unique perspective to understand EMNEs' CBMA activities through an investigation of the multi-dimensional nature of institutional distance. This helps capture a broad picture of one of MNEs' critical strategic decisions. In linking macro institutions to micro strategic decisions, I have further developed and advanced a key insight of institutional theory; the firm's strategy should be embedded in the dynamics of institutions.

This study has theorized and found that not all distance dimensions have a negative impact on CBMAs. Most of the existing literature tends to link institutional distance to high transaction costs, high uncertainties and risks, and strong barriers that constrain information flows. However, distance could also be an opportunity for a firm. The strategic-asset seeking is the main purpose of EMNEs' CBMAs, comparing to the market seeking CBMAs by DMNEs. Domestic constraints are not the barrier of EMNEs' CBMAs, but the motives for better institution in DEs, such as IPR protection and managerial skills. As argued by He and Wei (2013), distant markets provide a strong basis for knowledge acquisition and differentiation. In fact, risk perceptions of a distant market may elicit a strong desire for organizational learning. The combination of newly acquired knowledge and skills from a well-developed environment with the firm's existing FSAs developed from the home country can lead to unique resource and capability creation which offers a source of competitive advantage. Moreover, to add more insights in existing literature with the explicit consideration of different institutional distances, I found that more common language and active immigration can reduce the effect of cultural barrier. More internet use and infrastructure development offer more possibility of EMNEs' CBMAs.

The policy implication of this study is clear. Emerging economy governments have recognized the benefits of their MNEs' CBMAs and have attempted to guide EMNEs. The findings show that attentions should be paid to the institutional environments of both the home and the host countries, simultaneously. The awareness of political, economic and knowledge distance between home and host countries could lead EMNEs to merge or acquire firms in more distant countries and benefit from economic gains that can compensate for perceived risks and uncertainties associated with distant countries. Relative to developed countries, an emerging economy home country government should try to improve their country's distance along the dimensions of global connectedness and administrative links. The convergence to developed countries' standards in these two dimensions can lead EMNEs to better integrate cross-border economic activities and empower them to be in strong positions in information and knowledge exchanges.

The research has important managerial implications. A strategic decision such as the location choice of CBMAs in DEs should be based on the evaluation of optimum risk-adjusted benefits. There are benefits as well as costs associated with undertaking CBMAs in an institutionally distant country. Understanding the systematic institutional differences between countries is crucial. It is only through making sense of these differences that

EMNEs can adapt their organizational practices and internal procedures to managing these differences and ensuring organizational success.

Those dimensions of institutional distance, i.e. political, economic and knowledge, that have a positive impact on CBMAs tend to have a more formal nature, and therefore are relatively easy to understand. EMNEs may find that it is relatively easy to adapt their practices and routines in response to distance in these dimensions. Those dimensions of institutional distance, i.e. global connectedness and administrative, that have a negative impact on CBMAs tend to have a more informational nature. Adaptation to institutional pressures along these dimensions may be more challenging.

Finally, managers may want to factor institutional distance into their target prices. On the one hand, political, economic and knowledge distances offer EMNEs opportunities to escape from home country institutional constraints and acquire strategic assets so that there is potential room for adjusting target prices upwards. Hope et al. (2011) find that acquirers from EEs have a systematic tendency to bid higher in order to acquire assets in DEs. They attribute this to national pride and potentially elevated levels of managerial hubris (some of which may be coated by national pride). However, it is also likely that the overpayment indicates managers' awareness of the benefits from some dimensions of institutional distance. On the other hand,

global-connectedness and administrative distance can negatively affect EMNEs so that there should also be room for adjusting target prices downwards.

Chapter 4 The Role of Political Institutions in EMNEs' CBMAs in the OECD Countries

4.1 Introduction

In recent decades, cross-border mergers and acquisitions (CBMAs) have experienced a phenomenal growth. This is partly fuelled by the continued development of multinational enterprises (MNEs) from developed economies (DEs). But increasingly MNEs from emerging economies (EEs) have ascended to the world stage and taken leading positions in a number of industries such as container shipping, petroleum refining, steel, mining, electronics and telecommunications (UNCTAD, 2000, UNCTAD, 2007, UNCTAD, 2011). Unlike their counterparts in DEs, MNEs from EEs (henceforth EMNEs is used) usually do not possess firm-specific advantages that can act as ownership advantages, one of the three conditions for a firm's internationalisation in Dunning's eclectic paradigm (Dunning and Lundan, 2008). It has been highlighted in the literature that institutions play an important role in these firms' internationalisation, particularly political institutions (Benassy - Quere et al., 2007, Bevan et al., 2004, Coeurdacier et al., 2009, Gelbuda et al., 2008, Mudambi and Navarra, 2002, Peng et al., 2008) (henceforth, the word institution refers to political institutions unless specified differently).

The institutional factors can be categorised into two types: push factors in home countries and pull factors in host countries. Home country institutional weakness is a push factor. Inefficient government, a weak legal system, poor property rights and high political risk all contribute to EMNEs' strong incentives to operate overseas to avoid risk and high transaction costs in the domestic market (Buckley et al., 2007, Jormanainen and Koveshnikov, 2012). Push factors also include home country government support, policy promotions and liberalization. To improve firm competitiveness, EE governments support EMNEs to seek advanced technologies and strategic assets that are mostly available in DEs (Buckley et al., 2007, Luo et al., 2010). In spite of growing recognition of the role of home country political institutions in EMNEs' cross-border activities, both theoretical development and empirical evidence on the topic remain limited (Wu and Chen, 2014). However, the home country institutional factors may also hinder outward foreign direct investment (FDI). A favourable climate at home may attract firms to stay at home and reduce their propensity to invest abroad. Existing empirical studies on the role of home country institutions are limited.

More attention has been paid to the pull factors of host countries, the locational advantage emphasized in Dunning's eclectic paradigm. Daude and Stein (2007) explore the importance of a wide range of institutional factors including the unpredictability of laws, regulations and policies, an

excessive regulatory burden, government instability and lack of commitment, and find a positive relationship between institutions and FDI. Clarke (2001) finds that good political institution can have a positive impact on inward FDI, because high institutional quality positively impacts on technology upgrading. Globerman and Shapiro (2002) look into FDI and institutions in developing countries and find improved political governance in developing countries may result in more inward FDI. Bénassy-Quéré et al. (2007) also support this finding and find that better government effectiveness and legal system and less corrupt government attract more inward FDI. Better legal systems in host countries lead to less corruption, thereby reducing the possibility of losing the business (Gani, 2007). Other studies with similar findings include, for example, Bevan et al. (2004), Busse and Hefeker (2007) and Jensen (2008). However, there are also studies that do not find evidence of any significant effect of institutions on FDI (Wheeler and Mody, 1992, Fan et al., 2009).

In view of the lack of empirical studies on home country institutional factors and the mixed findings on host country institutional factors, this chapter adds to the FDI literature in several ways. First of all, this study considers home and host country institutions in an integrated framework. Existing research often treats these two groups of variables separately. There are studies that examine institutional distance between home and host countries

which show that CBMA deals are often significantly influenced by the differences between home and host country political institutions (Shimizu et al., 2004), but MNEs may not always compare home country institutions against host country institutions. It is likely that they consider both groups of variables at absolute terms simultaneously. Second, the study develops hypotheses based on the concepts developed by (Kaufmann et al., 1999): voice and accountability, political stability and lack of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. At the conceptual level, under the broad umbrella of political institutions, a wide range of factors has been covered in the literature. But with the exception of Globerman and Shapiro (2002), existing studies only examine limited aspects of institution. Globerman and Shapiro (2002), on the other hand, have not paid attention to whether the above six dimensions of political institutions may have different effects on FDI. Therefore, this study tries to answer this research question: What is the role of political institutions in location choice in EMNEs' CBMAs in the OECD countries?

The rest of the chapter is structured as follows. Section 4.2 provides an overview of existing literature on political institutions and FDI in general, and on CBMAs, a specific form of FDI, in particular. Following on from the review, I propose hypotheses on the impact of political institutions on the CBMAs by EMNEs in DEs. Section 4.3 describes data, variables and

methodology. Section 4.4 discusses empirical results and findings, followed by the conclusion in section 4.5. Contribution and implications are also discussed in the final section.

4.2 Literature Review and Hypothesis Development

With the booming economy in developing countries and their firms' increased venturing into the world stage, existing studies have increasingly focused on the role of institutions (Benassy - Quere et al., 2007, Globerman and Shapiro, 2002, La Porta et al., 1999, North, 1990, Oliver, 1997). Different dimensions to institutions have been examined including politics, economics, finance, administration, knowledge, global connectedness, demography and culture. This study will focus on political institutions. Following Kaufmann et al. (2012), political institutions have six dimensions: voice and accountability (VA), political stability (PS), government effectiveness (GE), regulatory quality (RQ), rule of law (RL) and control of corruption (CC). Together they build trust and credibility, prevent illegal opportunists and regulate business activities, and can affect perceptions and intentions in foreign business investment transactions and the economic and strategic choices of firms (Oliver, 1997). Linkage between institution and FDI, which includes CBMAs and greenfield investment, has increasingly gained academic attention.

Existing literature distinguishes institutional factors into pull factors in host countries and push factors in home countries (Jormanainen and Koveshnikov, 2012, e.g. Benassy - Quere et al., 2007, Luo et al., 2010, e.g. Gani, 2007, Buckley et al., 2007, Dikova and Van Witteloostuijn, 2007). Pull factors in host countries are often argued to positively influence inward FDI. Institutionally well-developed countries enjoy locational advantages: for example, a transparent and well-functioned host country government reduces uncertainty and political instability; “good” institution can bring more property and investor protection; a well-structured legal system in host countries leads to less corruption, and thereby provides more investor protection and reduces the possibility of losing the business (Gani, 2007). Therefore, countries with “good” institutions are more likely to receive more FDI.

As mentioned earlier, most of the empirical research on institution and FDI in general and CBMA in particular is carried out from the perspective of the host country. MNEs come into contact with host country institutions when they operate in the country and the continuity of these operations is constrained by the host country institutions. The early attempt by Wheeler and Mody (1992) does not provide significant evidence of the impact of good host institutions, measured by the risk index which contains political stability, corruption, bureaucratic quality and legal system, on US FDI.

However, this study sparks further research on institution and FDI. Studies by Wei (1997) suggest corruption significantly inhibits inward FDI. Stein and Daude (2001) find that not only corruption but also other institutional factors, for example government effectiveness and political stability, have a significant and economically important impact on FDI. Furthermore, they show that not all institution factors have the same level of impact on FDI decision-making, with government effectiveness being the most important institutional factor, followed by political stability. Clarke (2001) finds that good institutions can have a positive impact on FDI, because good institutional quality positively impacts on technology upgrading. Globerman and Shapiro (2002) examine 144 countries and confirm that good institutions attract inward FDI. In large developed countries, institutions, characterized by policies promoting competition, open and transparent legal and regulatory regimes and effective delivery of government service, create a favourable climate for FDI. However, because their dataset is not bilateral FDI flows between host and home countries, they also suggest further research can be based on the bilateral FDI flows to compare and contrast home versus host country institutions. Benassy - Quere et al. (2007) also support the previous finding that better government effectiveness, and legal system and less corrupt government attract more inward FDI. On the other hand, the findings of a positive link between host country institutions and

inward FDI is not universal. Fan et al. (2009) show that poor quality institutions in China do not act as a deterrent to FDI inflows.

Emerging economies have been playing a major role on the international business stage for decades. They not only act as a receiver of FDI, but also actively invest overseas. Especially since the start of the twenty-first century, more and more EMNEs have been participating in FDI activities, in particular CBMAs (Stein and Daude, 2001, Globerman and Shapiro, 2002). Different from their counterparts from DEs, EMNEs do not have firm-specific advantages such as advanced technologies, know-how, marketing techniques and well-established distribution networks that can act as ownership advantages for firms to overcome the “liability of foreignness” in the host country. Instead, they invest in DEs to acquire firm-specific assets which can be integrated into their system so that they can gain firm-specific advantages. It has been argued that these EMNEs are “pushed” by their home country institutions to go abroad for different reasons. First, because EEs’ institutional weaknesses, such as inefficient government, a weak legal system, poor property rights protection and high political risk, all give EMNEs strong incentives to operate overseas to avoid their own risk and high transaction costs in the domestic market (Buckley et al., 2007, Jormanainen and Koveshnikov, 2012). Second, there are also positive push factors such as home country government support, promotions policies and

liberalization. EE governments encourage domestic enterprises to invest overseas by providing stable and supportive regulation and institution (Buckley et al., 2007, Luo et al., 2010). Empirical studies on institution and FDI from the home country perspective are limited. Globerman and Shapiro (2003) consider that the relationship between home country institutions and outward FDI is complex. On the one hand, a favourable home country business environment limits capital outflows. On the other hand, these same factors may also encourage the growth of domestically owned MNEs that then establish their foreign affiliates. The empirical investigation of 144 countries shows that improvements in home country institutions restrict FDI for very small economies. For most countries, the effect of institution on FDI is positive. Wu and Chen (2014) investigate two dimensions of home country institution, the level of institutional development and institutional instability, and find that the former has a positive impact while the latter has a negative impact on the propensity of 921 Chinese firms for foreign expansion during 1996-2000.

The literature discussed so far shows, at the conceptual level, under the broad umbrella of political institutions, a wide range of factors have been considered, for example political stability, corruption, bureaucratic quality, legal system and government effectiveness. With the exception of Globerman and Shapiro (2002), existing studies only cover limited aspects

of institution. The empirical chapter adopts the Worldwide Governance Indicators (WGI) framework developed by Kaufmann et al. (1999), Kaufmann et al. (2000) to analyse political institutions. There are six dimensions to political institutions: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption. This framework is very comprehensive and has been widely used in institution research (Globerman and Shapiro, 2002, Gani, 2007, Globerman and Shapiro, 2003, Globerman and Shapiro, 2005, Hur et al., 2011, Mengistu and Adhikary, 2011, Stein and Daude, 2001, Wernick et al., 2009). The following will discuss the impact of each dimension of political institution on CBMAs in the context of EE being home countries and DEs being host countries.

4.2.1 Voice and Accountability (VA)

Voice and accountability captures the extent to which a citizen can acknowledge and participate in a country's political and government activities, such as elections and policy making, and also associate with free access and expression with the independent media. In other words, VA is linked to democratic decision-making and media independence. As democratic institutions provide checks and balances on elected government officials and transparent political systems, which are likely to reduce

arbitrary government intervention, lower the risk of sudden policy change, strengthen property rights protection and improve the quality of information flows (Holmes et al., 2013), it is expected that FDI would be attracted to a host country in DEs with favourable conditions in VA.

However, from the home country perspective, the impact of VA on CBMAs by EMNEs is less clear at the theoretical level. EEs tend to have weak democratic institutions. Governments rely less on popular support, citizens tend to be less informed about and influential on government activities, and government officials are more self-serving and more likely to manipulate institutions for personal gain (Holmes et al., 2013). As a consequence, on the one hand, successful firms may enjoy the favours and protections offered by autocratic government and exploit their oligopolistic and monopolistic positions at home, therefore having fewer incentives to invest abroad. On the other hand, they may be encouraged by autocratic government to internationalise to acquire strategic assets abroad. Thus the overall effect of VA in the home country on FDI is an empirical question. To summarize the above discussion, only one hypothesis about the positive relationship between the level of VA of a host DE and CBMAs by EMNEs can be clearly formulated. The impact of VA of a home EE on CBMAs by EMNEs could be positive, negative or negligible if the positive effects are balanced out by the negative effects.

H1: The higher the VA of the host DE, the more CBMAs are undertaken by EMNEs.

There are a few empirical studies of the role of the host country VA. However, to the best of my knowledge, there is no empirical study that examines the role of home country VA. In Stasavage's (2002) study of FDI and political institutions, it is found that when the host country moves from an authoritarian system with less public acknowledgement and supervision to a democratic system with legitimate and executive supervisions of a separate and independent media and public, the inflow of FDI into the country can increase by 16% in a long-term effect. Harms and Ursprung (2002) show a positive relationship between democracy and FDI, which means that MNEs prefer to invest in countries where civil rights and public freedom are respected. Similarly, Busse and Hefeker (2007) find democratic rights are significant to FDI inflows, and MNEs prefer democratic destinations because these can be supervised by public media and can be considered as "transparent". Though these empirical studies are based on inward FDI in developing countries, the findings may also be applicable to DEs. Many EEs are moving towards better political institutions, including giving VA to their citizens. For example, India and Mexico are learning from western examples. Even socialist countries such as China, compared to their past, act much more transparently and give their citizens more political

rights and civil liberties.

4.2.2 Political Stability and Absence of Violence (PS)

Political stability (PS) and absence of violence captures the level of stability in political and constitutional conditions. Political instability and violence may disrupt the economic process, damage infrastructure, impose financial constraints on the country and crowd out investments in other areas such as education and public health. They may also be associated with regime change that can potentially create additional difficulties for firms, including the threat of nationalisation, expropriation, capital control and high tax rates. Political instability and violence could also obstruct business operations, affect the effectiveness of resource allocation and increase transaction costs. From the perspective of the host country, it is straightforward that political instability and violence discourage inward FDI. From the perspective of the home country, political instability and violence encourage outward FDI as investors try to avoid the possibility that the uncertainty and risks could erode the future value of their assets holding. In the context of DEs as host countries and EEs as home countries, it can be safely argued that a politically more unstable EE is likely to push EMNEs abroad, while stable and mature DEs as host countries provide the needed institutions for EMNE investors. As a long-term strategy, CBMAs are more likely to happen in host

countries with low levels of uncertainty, violence and terrorism as they creates a stable institution for foreign investors (Hur et al., 2011). Therefore I convey the following hypotheses:

H2a: The higher the PS and absence of violence of the host DE, the more CBMAs are undertaken by EMNEs.

H2b: The lower the PS and absence of violence of the home EE, the more CBMAs are undertaken by EMNEs.

A number of empirical studies clearly show that stable political institutions with a competitive business environment are a significant determinant of inward FDI and this applies to both developed countries and developing countries. Schneider and Frey (1985) reveal the reduction of FDI inflows in developed countries when domestic PS decreases, a result further confirmed by Asiedu (2006) study of FDI in Africa. Based on FDI inflows into Gulf Co-operation Council (GCC) countries from 1984 to 2002, Mina (2009) shows that foreign investors prefer more stable institutions as the target. Hayakawa et al. (2013) examine FDI inflows including both developed countries and developing countries from 1985 to 2007, and find that the low level of PS reduces FDI inflows. Brada et al. (2006) study FDI inflows into Balkan countries during the period 1991-2001, and show that FDI is significantly reduced because of the war effects. They suggest that foreign investors avoid investing in host countries when their perception of

instability exceeds the expected level. Especially in the Balkan cases, foreign investors can expect much more stability in western European countries than Balkan countries. Hayakawa, Kimura et al. (2013) also include the conflicts factor in their study, and show the negative effect of frequent internal conflicts in either developed countries or developing countries on FDI. However, there are also studies that find no significant relationship between FDI and political instability (Noorbakhsh et al., 2001).

Empirical studies on FDI from the perspective of PS of the home country are limited. However, there are some studies on political risks and capital flight. For example, Le and Zak (2006) and (Lensink et al., 2000) find a positive relationship between political instability and capital outflow. This can be indirect evidence of the suggested positive relationship between political instability of the home country and outward FDI. Moreover, for emerging countries with rapid growth, political instability limits the local firm to domestic expansion and also raises the worries of nationalisation. Investing in stable and regulated western DEs is shown to be the good way to diversify the risk (Mengistu and Adhikary, 2011).

4.2.3 Government Effectiveness (GE)

Government effectiveness (GE) includes the quality of civil and public

service by government and the degree of independence of the service from political influence. These reflect the credibility of government commitment to the public. Host countries design and perform effective government services to attract foreign investors, because higher GE lowers the cost barrier of entry.

While DEs are considered to have an “effective government and invest environment”, EEs are more likely to be less effective, with excessive and unclear regulations. EMNEs can break out of the home country constraints by acquiring overseas targets. Malhotra et al. (2009) also argue that effective government encourages outward CBMAs. CBMAs increase according to the perception of lower co-ordination costs and a less time-consuming process in home countries for domestic enterprise to go overseas. Thus, the following hypotheses are proposed:

H3a: The better the GE of the host DE, the more CBMAs are undertaken by EMNEs.

H3b: The better the GE of the home EE, the more CBMAs are undertaken by EMNEs.

There are a small number of empirical studies that investigate explicitly the role of GE in FDI and CBMA decisions. In the study of US inward and outward CBMAs from 1989 to 1999, Kiyamaz (2004) shows that foreign

investors, in anticipation of the wealth gains and returns from the lower information costs and easier operation management of investing in US, invested in the US. Likewise, US bidders tend to choose targets from the institution with effective government. The empirical results of Malhotra et al. (2009) indicate that EEs tend to invest in DEs to avoid their own domestic barriers caused by ineffective home government, and also with the help of the improvement of home GE. Mengistu and Adhikary (2011) reveal that even when EEs invest in developing countries, EMNEs still prefer targets from countries with relatively more effective governments

4.2.4 Regulatory Quality (RQ)

Regulatory quality (RQ) represents the ability of government to formulate and implement policies that promote, permit and regulate public and private sectors. In other words, governments can not only produce market-friendly policies to attract FDI inflows, but also execute regulations to influence market price and supervise bank operations for foreign investment and business development. The regulatory role of government is a fundamental determinant to FDI inflows in host countries (Busse and Groizard, 2008, Asiedu, 2006, Asiedu, 2004, Davidson, 1989). A good regulatory system provides a creditable and consistent investment environment which enhances the confidence of foreign investors. Open policies boost FDI

inflows in host countries. Better RQ increases the inward CBMAs (Hur et al., 2011). However, it is not about individual policies in host countries. It is essential to provide an integrated regulation framework to liberalize the host market through effective supervision. To be more specific, both the lack of host government regulatory functions and highly restricted regulations lead to less FDI inflows, because institutional void and highly regulated economies create market distortion (Busse and Groizard, 2008). Compared with EEs, DEs are known for a comprehensive and extensive regulation framework, which can be attractive to EMNEs in their quest for strategic assets to improve their competitive advantages.

Although EEs impress the world with rapid economic development, political institutions are weaker than DEs, and EEs learn from DEs when making economic and development policies. Poor RQ and high restrictions limit domestic firms from expanding internally, and force local firms to seek chances internationally (Campos and Kinoshita, 2002). On the other hand, EEs traditionally have tight control on outward FDI (Rasiah et al., 2010). The improvement and promotion policies in EEs move more slowly than the long-standing weak regulatory framework. A large number of EEs do not provide supportive policies on outward foreign direct investment (OFDI) (Sauvant et al., 2009). For EMNEs, domestic government is not always supportive; in order to break the constraints and compete with counterparts

from DEs, EMNEs expand into better regulated institutions to achieve competitive advantages. Hence I propose two possibilities for RQ of the home country:

H4a: The higher the RQ of the host DE, the more CBMAs are undertaken by EMNEs.

H4b: The lower the RQ of the home EE, the more CBMAs are undertaken by EMNEs.

Empirical studies looking at the impact of RQ are few and they all focus on host countries. Taylor (2000) argues that when host countries only promote trade policies such as a low tax tariff, it is inadequate. Policy restrictions on technology transfer in a host country reduce FDI inflows, as foreign investors fear the investment to be non-beneficial and expropriate. Taylor (2000) also suggests that both trade and investment open policies are important to attract FDI. Az émar and Desbordes (2010) examine US FDI outflow into both developed and developing countries over 1983 to 1993, and find that deregulation and active labour policies in host countries boost the FDI inflows, lift the possibility for highly skilled workers to find a job in the active labour market, and promote the acquirers' incentives to achieve human resource advantage. They also reveal the positive effect of open economic policies on FDI inflows. Kirkpatrick et al. (2006) show that an effective regulation framework is a transparent and independent system

apart from political interference.

4.2.5 Rule of Law (RL)

Rule of law (RL) postulates the fairness and power of a law system to protect society, property rights, contracts enforcement and other economic development. A powerful and fair judiciary and court in host countries enhance the foreign investors' confidence in the protection of contracts enforcement. An effective and law system also prevents and reduces crime and other illegal activities; thus foreign investors can perceive a secure business environment in host countries. Better RL can increase CBMAs in host countries. Meanwhile, La Porta et al. (1999) classify that various worldwide legal systems all inextricably derive from four types of legal origins: English common law, the civil law of French, German or Scandinavian origin, and socialist law. Both La Porta et al. (2000), in their further research, and Levine (1999) argue that legal systems with English common law origins can protect investors and shareholders better. They suggest that economic development can be more effective and secure in host countries under English common law, which results in more FDI inflows.

In the meantime, the low level of legal infrastructure in home EEs forces domestic firms to acquire overseas. A high risk of corporate value

appropriation in EEs exists, which deters the expansion of EMNEs (Rasiah et al., 2010). Lee and Mansfield (1996) point out the intellectual property rights (IPR) protection in developing economies is very low. Hence EMNEs transfer their knowledge to better legal institutions for strong protection. Also EMNEs perceive the contract enforcement and supervision is not guaranteed in the home EE. Without effective and legal regulations, commitments in business activities in EEs may be unpredictable and unreliable. EMNEs seek better investor protection overseas because of the lack in home countries (Rossi and Volpin, 2004). Therefore, the following hypotheses are proposed:

H5a: The better the RL of the host DE, the more CBMAs are undertaken by EMNEs.

H5b: The weaker the RL of the home EE, the more CBMAs are undertaken by EMNEs.

Existing empirical studies focus on the RL in host countries, while attention on the RL in home countries is limited. Rossi and Volpin (2004) particularly examine the impact of investor protection and CBMAs in 49 countries between 1990 and 1999. Results show more CBMAs occur in countries with higher investor protection. They conclude the reason is that corporate control becomes ineffective and low when shareholder protection is low. Private arbitrage benefits from weak corporate control and operation, which

harms the investor and corporate value. Lee and Mansfield (1996) conducted research on the relationship between IPR protection in developing economies and FDI inflows from US firms, and they indicate that strong IPR protection in host countries attracts more FDI inflows. This finding is supported by Javorcik (2004); he focused on developing economies in Eastern Europe and the former Soviet Union and shows the negative effect of a weak legal system in host countries on inward FDI. Campos and Kinoshita (2002) examine the FDI inflows into 25 transition economies between 1990 and 1998, and find that foreign investors prefer countries with better legal institutions. Poor legal conditions in EEs prompt the EMNEs to invest in DEs, as the extensive and comprehensive legal practices in DEs provide a safer investment environment and learning example.

4.2.6 Control of Corruption (CC)

Control of corruption (CC) captures the degree of government control of private gains with public power, including corruption. Corruption in host countries increases the unpredictable volume of transaction costs for foreign investors. DEs hold the symbol of “clean” government; a high level of CC makes foreign investors able to predict the cost of investment to the maximum (2000). Moreover, when CC is improved in host countries, it also

attracts more FDI (2001), because foreign investors can reduce the cost of bank loans and portfolio capital and receive more financial support in host countries.

Because of the relatively lower level of CC in EEs, EMNEs suffer from the negative influence of domestic corruption. Although EMNEs may be familiar with local corrupt institutions, the unpredictable cost brought by home market corruption is not a favourable business environment for EMNEs (Weitzel and Berns, 2006). In the meantime, literature also points out that the improvement of CC in home countries can create a favourable business investment at home for EMNEs. Thus CC can enhance the EMNEs' confidence in expanding in the home market rather than going overseas, further reducing the outward FDI (Globerman and Shapiro, 2003, Habib and Zurawicki, 2002). Therefore, two hypotheses can be formulated:

H6a: The better the CC of the host DE, the more CBMAs are undertaken by EMNEs.

H6b: The weaker the CC of the home EE, the more CBMAs are undertaken by EMNEs.

Empirical studies mainly focus on host countries rather than home countries. Even EEs are analysed as host countries for FDI inflows. Wei (2000) analyses the relationship between FDI inflows and corruption based on FDI

data from 12 home countries to 45 host countries during the early 1990s, and shows that less CC and a high level of corruption in the host countries have a significant negative impact on FDI inflows. Results also suggest that corrupt host countries receive less FDI because foreign investors suffer from the high cost of bank loans and portfolio capital in host countries. Existing literature also finds that when CC in host countries gets better, FDI inflows rise significantly. Vittal (2001) points out the FDI flow to India can increase by 12% if corruption is strictly controlled in India, and he also suggests that FDI in China could be doubled if the Chinese government reduces red tape and corruption. Besides Asian developing countries, African developing countries can benefit from CC as well. A study shows that when Nigeria manages to reduce the corruption level to that of Hong Kong between 1974 and 1989, a 5% increase is added to FDI inflows in Nigeria (Brunetti et al., 1997).

By taking the example of Japanese outward FDI into 59 host countries, Voyer and Beamish (2004) find that when Japan as the home country tends to target less corrupt countries, less Japanese FDI flows into countries where an undeveloped legal system hardly restricts activities and a high level of corruption exists. A similar result is found in the studies of EEs' outward FDI (Habib and Zurawicki, 2002, Al-Sadig, 2009), when the lower level of CC in the home market increases the EEs' outward FDI in DEs where the

corruption is better controlled. Globerman and Shapiro (2003) point out that the relationship between better home country institutions and outward FDI can be negative. Favourable home country institutions created by improved CC limits capital outflows. Their empirical investigation of 144 countries shows that improvements in home country institutions restrict FDI for very small economies. For most countries, the effect of institution on FDI is positive.

4.3 Data and Methodology

4.3.1 Data and Variables

This empirical analysis is based on data gathered from four main sources: the SDC Platinum Database, the World Bank's Worldwide Governance Indicator (WGI) (Kaufmann et al., 2012), the World Trade Organization (WTO) Regional Trade Agreements database and institution distance indices (Berry et al., 2010). SDC reports CBMAs completed by EMNEs in the OECD countries during 01/01/2000-31/12/2011. The WGI (Kaufmann et al., 2012) measures political institutions on six indicators: voice and accountability, political stability and no violence, government effectiveness, regulatory quality, rule of law and control of corruption. Berry et al. (2010) provide data for control variables of eight dimensions of institutional

distances (e.g. economic distance) between acquiring and targeting countries. Eight countries (Chile, Czech Republic, Estonia, Hungary, Mexico, Poland, Slovak Republic and Turkey) considered as emerging economies also became members of the OECD during the sample period. Given the research interests, they are retained in the EE category. The full list of EEs is provided in Appendix 1. The final sample contains 2,906 completed CBMA transactions undertaken by EMNEs from 43 EEs in 26 OECD countries during the period 2000-2011. The final sample includes 1,086 paired-country observations.

Following existing studies (e.g. Coeurdacier et al., 2009, Di Giovanni, 2005, Hyun and Kim, 2010, Kiyamaz, 2004, Malhotra et al., 2009, Malhotra et al., 2011, Manchin, 2004, Markides and Ittner, 1994, Rossi and Volpin, 2004, Uddin and Boateng, 2011, Zhang et al., 2011), the study uses the number of completed CBMA deals by EMNEs from country *i* to an individual OECD country *j* in year *t* as the dependent variable. SDC also reports transaction values; however, the information is rather incomplete for EMNEs. Therefore the number of CBMA deals is chosen, rather than the values, as the dependent variable, as the former is a better indicator of firms' behaviour profiles (Malhotra et al., 2009).

The model combines the number of CBMA deals with independent

measures of six governance indicators from the WGI (Kaufmann et al., 2012). The WGI has been widely tested by a number of previous scholars, and is proven to be the established and comprehensive method for institution quality research (Busse and Hefeker, 2007, Gani, 2007, Globerman and Shapiro, 2002, Globerman and Shapiro, 2005, Hur et al., 2011, Jensen, 2008, Mengistu and Adhikary, 2011, Stasavage, 2002, Wernick et al., 2009). Based on 31 separate data sources provided by various organizations, WGI index combines a large number of qualitative and quantitative variables into six governance indicators. They improve the dataset in 2009, which covers 212 countries and territories over the years of 1996, 1998, 2000, and 2002 to 2008 (Kaufmann et al., 2009). The recent version was updated in 2012, and it covers 230 countries and territories over the years 1996, 1998, 2000, and 2002 to 2011 (Kaufmann et al., 2012).

The choice of control variables is based on existing literature. The most controlled factors are economic factors (GDP per capita, inflation rate and GDP growth rate) and infrastructure factors (internet use) (Coeurdacier et al., 2009, Cuervo-Cazurra, 2006, Darby et al., 2010, Globerman and Shapiro, 2002, Hur et al., 2011, Kirkpatrick et al., 2006, Mengistu and Adhikary, 2011, Singh, 2012, Wernick et al., 2009). I also add four more control variables: knowledge factors, administrative factors, EU dummy variable and RTAs. EU dummy variable means $EU = 1$ when the host country is an

EU member, otherwise 0. Therefore, the study employs economic distance, knowledge distance, global-connectedness distance and administrative distance from the institution distance indices by (Berry et al., 2010). In order to minimize the effect of national co-operation, I employ the number of physical RTAs by home and host countries as the control variable (Asiedu, 2006, Di Giovanni, 2005). The WTO Regional Trade Agreements database provides the data for the full list of the number of physical RTAs signed by each country.

4.3.2 Regression Model

The dependent variable, the number of CBMA deals, is a count data series, which takes discrete integer values and presents considerable overdispersion (with the variance being greater than the mean). A generalized linear model (GLM) assuming a Poisson or negative binomial distribution is called for. A Poisson process describes events that happen independently and randomly in time. The probability that the number of CBMA deals (y_i) will occur given a set of explanatory variables x_i can be represented by the equation:

$$f(y_i | \mathbf{x}_i) = \frac{e^{-\lambda_i} \lambda_i^{y_i}}{y_i!}, \quad y_i = 0, 1, 2, \dots$$

However, the Poisson model needs to meet the requirement of equality between its first two moment conditions. Because of the unobserved effects, such as the uncertainty inherent in undertaking CBMA deals, a problem of

‘overdispersion’ may occur, whereby the conditional variance exceeds the conditional mean. In this case, a negative binomial model can be used to overcome the problem as it offers a more efficient estimator than a Poisson model. Both models can be estimated by maximum likelihood estimation. Equations below show the regression (1):

$$\text{CBMA number} = \alpha_0 + \alpha_n \cdot \text{WGI} + \beta_n \cdot \text{controls} + \varepsilon \quad (1)$$

Table 9 presents the descriptive statistics and correlation matrix. A review of correlations between WGI variables shows that the multicollinearity can be observed. Thus, this empirical study follows the established researches to test each political institutions factor in a separate regression, which is supported by existing studies (Globerman and Shapiro, 2002, Globerman and Shapiro, 2003, Globerman and Shapiro, 2005). They suggest that WGI indicators are highly correlated to each other, so it is not possible to examine them all in one regression, and a single regression should be run to test each of the WGI factors.

Table 9 Descriptive Statistics and Correlation Matrix

Variable	Mean	s.d.	homeva	homeps	homege	homerq	homerl	homecc	hostva	hostps	hostge	hostrq	hostrl	hostcc	hostrta
Number of CBMAs	2.681	4.152													
homeva	-0.184	0.826													
homeps	-0.228	0.785	0.222												
homege	0.246	0.502	0.316	0.694											
homerq	0.216	0.531	0.428	0.737	0.835										
homerl	0.028	0.562	0.363	0.708	0.792	0.781									
homecc	-0.050	0.600	0.363	0.791	0.822	0.848	0.851								
hostva	1.324	0.219	0.052	0.024	0.061	0.066	0.069	0.056							
hostps	0.702	0.485	0.053	0.041	0.061	0.066	0.066	0.033	0.648						
hostge	1.597	0.399	0.056	0.026	0.060	0.072	0.059	0.060	0.801	0.611					
hostrq	1.489	0.285	-0.007	0.002	0.047	0.053	0.048	0.028	0.616	0.358	0.647				
hostrl	1.541	0.374	0.002	0.013	0.084	0.061	0.059	0.029	0.773	0.669	0.758	0.700			
hostcc	1.637	0.566	0.034	0.039	0.085	0.078	0.080	0.054	0.834	0.638	0.844	0.745	0.855		
hostrta	13.202	10.374	0.088	0.129	0.037	0.115	0.135	0.101	0.015	-0.015	-0.141	-0.026	-0.122	-0.095	
homerta	25.616	11.348	0.460	-0.102	-0.005	0.088	-0.009	-0.214	0.038	0.056	0.024	-0.028	0.004	0.026	0.109

4.4 Results and Discussion

Table 10 shows the estimation results of political institutions variables. Reg1, reg2, reg3, reg4, reg5 and reg6 are separate estimations of WGI variables. Six control variables of ED, KD, GCD and AD, EU dummy and RTAs are included in each regression. H2a, H3b, H4a, H4b, H5a, H5b, H6a and H6b are fully supported. The estimation results fail to support H1, H2b and H3a.

Table 10 Estimation Results of Political Institutions

	reg1	reg2	reg3	reg4	reg5	reg6
Number						
Homeva	-0.095 [0.073]					
Hostva	0.212 [0.171]					
Homeps		-0.240*** [0.061]				
Hostps		-0.039 [0.087]				
Homage			-0.105 [0.081]			
Hostge			0.190*** [0.072]			
Homerq				-0.456*** [0.089]		
Hostrq				0.581*** [0.135]		
Homerl					-0.127** [0.059]	
Hostrl					0.356*** [0.083]	
Homecc						-0.294*** [0.071]
Hostcc						0.189***

						[0.055]
Homerta	0.008**	0.008**	0.005	0.015***	0.006*	0.005
	[0.004]	[0.003]	[0.003]	[0.004]	[0.003]	[0.003]
Hostrta	0.065***	0.048***	0.061***	0.059***	0.070***	0.069***
	[0.015]	[0.016]	[0.016]	[0.015]	[0.017]	[0.016]
EU	-1.995***	-1.544***	-1.855***	-1.810***	-2.050***	-2.031***
	[0.368]	[0.394]	[0.383]	[0.371]	[0.401]	[0.375]
AD	-0.006***	-0.006***	-0.006***	-0.005***	-0.007***	-0.006***
	[0.002]	[0.002]	[0.002]	[0.002]	[0.002]	[0.002]
KD (x 10 ⁻³)	0.002	-0.001	0.013	0.003	0.001	0.002
	[0.005]	[0.003]	[0.011]	[0.003]	[0.003]	[0.005]
ED	0.015***	0.016***	0.016***	0.014***	0.013***	0.014***
	[0.005]	[0.004]	[0.005]	[0.004]	[0.004]	[0.004]
GCD (x 10 ⁻³)	-0.042***	-0.011***	-0.051***	-0.037***	-0.021***	-0.078***
	[0.001]	[0.005]	[0.007]	[0.005]	[0.003]	[0.002]
N	763	763	763	763	763	763
R2						
pseudo R2	0.046	0.053	0.047	0.063	0.049	0.053

Robust standard errors in parentheses.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$, # < 0.12

Estimation results of the WGI factors show PS, RQ, RL and CC are statistically significant on the home country side, with expected signs, while VA and GE are statistically insignificant on the home country side. GE, RQ, RL and CC are statistically significant on the host country side, with expected signs, while VA and PS are statistically insignificant on the host country side. These imply that on the home country side, the home country pays more attention to PS, RQ, RL and CC in its domestic institutions, while VA and GE are not influential on the home country effect. On the host country side, GE, RQ, RL and CC in the host country have a significant function in the decision-making of inward CBMAs, except that VA and PS draw less attention. Further discussions are made below.

On the home country side, empirical findings support previous scholars (Campos and Kinoshita, 2002, Rasiah et al., 2010, Sauvart et al., 2009). Poor and constrained RQ in home institutions is still the main push factor for EMNEs' CBMAs. EMNEs escape from the tight political control and weak regulatory framework in the home country to DEs. The negative effect of PS on home countries in the empirical findings is in line with existing literature (Hayakawa et al., 2013, Hur et al., 2011). Comparing with DEs, the political stability level in EEs is lower, and it is harmful for local firms to expand domestically. EMNEs lower the risk of domestic political instability via CBMAs. It is not hard to conclude that more violence and an unstable investment environment impede domestic development, but more go-out activities occur. The negative result of RL proves that EMNEs are concerned their high corporate control and value in home country with insufficient protection, the enforcement and commitment in contract are weak in home market. Hence, when the shareholder protection in the home country decreases, more CBMAs occur. The negative effect of CC in the home country confirms that the unpredictable cost of operation in the corrupt home market in EEs strongly forces EMNEs to acquire overseas.

In addition, VA and GE seem to play an insignificant role in home institutions, because when EMNEs acquire targets overseas, information and government effectiveness in host countries are much more important than

the conditions in the home country. Information asymmetry occurs on the host country side. With sufficient acquaintance with their own institutions, EMNEs require better information access on their targets. Thus VA and GE in EEs become less important.

On the host country side, the empirical results of GE, RQ, RL and CC are consistent with the hypotheses and literature. An effective host government (GE) reduces the cost barrier of entry and gives the foreign investor the perception of easier operation management (Kiyamaz, 2004). Better RQ in the host country provides a market-friendly policy and institution to foreign investors. The integrated regulation framework can liberalize the host market with effective supervision. A good regulation system provides a credible and consistent investment environment to enhance the confidence of foreign investors in the private sector. Compared with EEs, DEs are reputable for their comprehensive and extensive regulation framework, which makes them a favourable target as a host country for EEs (Busse and Hefeker, 2007, Taylor, 2000). Good RQ in DEs has a positive effect on attracting inward CBMAs. Therefore, the result supports previous findings on RQ that better RQ in DEs can attract more CBMAs from EEs. Advanced RL in DEs has extensive and comprehensive legal practices. It enhances the foreign investors' confidence with better shareholder protection and contract enforcement, especially because most law systems in DEs are rooted in

English common law, and civil law of French, German and Scandinavian origin. Economic development can be more effective and secure because of these legal origins. In order to obtain more corporate control and independent operation for more shareholder value and protection, EMNEs escape from a weak legal system to a good legal system (La Porta et al., 2000, Levine, 1999, Rossi and Volpin, 2004). Most of the literature shows the significant positive effect of CC in host countries on attracting CBMAs, because high control of corruption prevents bribery. Bribery is considered wrong and more costly to foreign investors, which then deters the inward CBMAs in host countries (Cuervo-Cazurra, 2006, Habib and Zurawicki, 2002, Wei, 2000).

Finally, little impact of VA and PS is found in host countries on EMNEs' CBMAs. Existing literature argues that transparent and independent public media as a separate party can provide objective and direct supervision, and democratic political systems are supposed to be a favourable investment environment (Busse and Hefeker, 2007, Stasavage, 2002). A stable political institution (PS) lowers the nationalisation risk, and a non-violent market reduces the cost of investment by cutting down the insurance premiums of foreign investment (Busse and Hefeker, 2007, Jensen, 2008). For the adopted sample, DEs from the OECD as host countries all maintain high level of PS, so the impact of PS of DEs on EMNEs' CBMA location choices

becomes less sensitive. Therefore, the results show that VA and PS in host countries have an insignificant effect on EMNEs' CBMAs.

4.5 Conclusion

This study examines the role of political institutions of both the home country (EEs) and the host country (DEs) in EMNEs' CBMAs. Empirical findings show that in the home country, the negative effects of PS, RQ, RL and CC are in line with existing literature. Poor and constrained RQ in the domestic institution is still the main push factor for EMNEs' CBMAs (Campos and Kinoshita, 2002, Rasiah et al., 2010, Sauviant et al., 2009). EMNEs escape from the tight political control and weak regulatory framework in the home country to DEs. It is not hard to conclude that more violence and an unstable investment environment impede domestic development, and more go-out activities occur (Hayakawa et al., 2013, Hur et al., 2011). The negative result of RL proves that when the insufficient investor protection in the home country decreases, more CBMAs occur. The finding of the negative effect of CC shows that a low level of CC in EEs increases the cost of domestic business activities for EMNEs, and the unpredictable institution forces EMNEs to acquire overseas. However, VA and GE seem to play an insignificant role in EMNEs' CBMAs on the home country side, because when EMNEs acquire targets overseas, information

and government effectiveness in the host countries are much more important than the conditions in the home country. Information asymmetry occurs on the host country side. With sufficient acquaintance of their own institutions, EMNEs require better information access on their targets. Thus VA and GE in EEs become less important.

On the host country side, the empirical results of GE, RQ, RL and CC are consistent with the hypotheses and literature. Effective host government (GE) reduces the cost barrier of entry and gives the foreign investor the perception of easier operation management (Kiyamaz, 2004). Better RQ in the host country provides a market-friendly policy and institution for foreign investors. The integrated regulation framework can liberalize the host market with effective supervision. A good regulation system provides a creditable and consistent investment environment to enhance the confidence of foreign investors in the private sector. Compared with EEs, DEs are reputable for their comprehensive and extensive regulation framework, makes them a favourable target as a host country for EEs (Busse and Hefeker, 2007, Taylor, 2000). Good RQ in DEs has a positive effect on attracting inward CBMAs. Therefore, the finding supports previous findings on RQ that better RQ in DEs can attract more CBMAs from EEs. Advanced RL in DEs has extensive and comprehensive legal practices. It enhances the foreign investors' confidence with better shareholder protection and contract

enforcement, especially because most of the law systems in DEs are rooted in English common law, and civil law of French, German and Scandinavian origin. Economic development can be more effective and secure because of these legal origins. In order to obtain more corporate control and independent operation for more shareholder value and protection, EMNEs escape from a weak legal system to a good legal system (La Porta et al., 2000, Levine, 1999, Rossi and Volpin, 2004). Most of the literature shows the significant positive effect of CC in host countries in attracting CBMAs, because high control of corruption prevents bribery. Bribery is considered wrong and is more costly to foreign investors, which then deters the inward CBMAs in host countries (Cuervo-Cazurra, 2006, Habib and Zurawicki, 2002, Wei, 2000).

Finally, the results find little impact of VA and PS in host countries on EMNEs' CBMAs. Existing literature argues that transparent and independent public media as a separate party can provide objective and direct supervision, and a democratic political system is supposed to be a favourable investment environment (Busse and Hefeker, 2007, Stasavage, 2002). A stable political institution (PS) lowers the nationalisation risk, and a non-violent market reduces the cost of investment by cutting down the insurance premiums for foreign investment (Busse and Hefeker, 2007, Jensen, 2008). For the adopted sample, DEs from the OECD as host

countries all maintain high levels of PS, so the impact of PS of DEs on EMNEs' CBMA location choices becomes less sensitive. Therefore, VA and PS in host countries have an insignificant effect on EMNEs' CBMAs.

Although the findings are in line with existing literature, the chapter theoretically contributes to the existing literature with several points. First, it adds to the literature by studying both EEs as the home country and DEs as the host country, with the comprehensive WGI framework. Existing literature mostly focuses on either DEs as the home country, or EEs as the host country. The existing academic work on EEs as the home country is very limited. This research enriches the theoretical pool with six explicit dimensions of political institutions. Second, in contrast with existing theoretical studies, this research proves that not all the political institutions are important in EMNEs' CBMAs. Moreover, this study theoretically contributes that effects of same political institutions of target and acquirer countries are different. Scholars should consider the situation that positive political institutions in DEs can be negative in EEs. Findings of the significant positive relationship between hostGE, hostRQ, hostRL, hostCC and EMNEs' CBMAs support the existing literature on DMNEs' CBMAs. Findings of insignificant hostVA and hostPS on EMNEs' CBMAs suggest that DEs from the OECD as host countries all maintain a high level of PS, so the impact of incidents between DEs on EMNEs' CBMA location choices

becomes less sensitive.

This research has important implications at both government and managerial levels. For EEs, supportive go-out policies and improving government effectiveness can always promote EMNEs' CBMAs. It significantly helps the domestic firms to acquire targets overseas. For DEs, an active exposure on the international stage with good institutions and supportive policies can attract more inward CBMAs. For the managerial level of EMNE and DE firms, strategic assets and human resources at the firm level are no longer the only main determinants. Managers should evaluate the political institutions when they are choosing locations and searching for targets. The effect of institution can be vital and costly.

Chapter 5 The Impact of Institutional Distance on the Performance of Acquired Firms by EMNEs in the OECD Countries

5.1 Introduction

Cross-border mergers and acquisitions (CBMAs) by multinational enterprises from emerging economies (EMNEs) have attracted considerable attention from both policymakers and academia (Bauer and Matzler, 2014). As latecomers to the international market, EMNEs utilise CBMAs to swiftly acquire strategic assets, such as advanced marketing skills, superior R&D ability, managerial know-how assets and human assets, access to new markets and improved capabilities (Buckley et al., 2007, Kedia et al., 2012, Luo and Tung, 2007, Shimizu et al., 2004, Lu et al., 2011, Buckley et al., 2014), compensating for their competency deficiency. Developed economy (DE) firms possessing strategic assets are important targets for these EMNEs. At the same time, these DE firms need the strong financial support from these EMNEs and their assistance in accessing a new, large market. CBMAs are therefore considered by managers of both the acquired and the acquirer firms as a way to improve firm performance (Shimizu et al., 2004). However, EMNEs potentially face additional challenges derived from their country of origin. They need to overcome unfamiliarity, relational and

discriminatory hazards to establish legitimacy in the host country market. The acquirer and the acquired firms also need to trust each other, integrate with each other and achieve synergy between them. These pose further threats to the performance of the EMNEs' operation in developed countries. Can the performance of acquired firms of EMNEs be improved?

Firm performance associated with CBMAs has been widely investigated, drawing insights mostly from accountancy, finance, economics and management (Bauer and Matzler, 2014). However, these studies are mostly in the context of developed countries. Examination of CBMAs by EMNEs is a relevantly new research area and the focus of these studies tends to be on individual countries or a small number of countries, for example India and China, and on the performance of the acquirer firms (e.g. Aybar and Ficici, 2009, Gubbi et al., 2010, Nicholson and Salaber, 2013, Bhagat et al., 2011, Boateng et al., 2008). To the best of my knowledge, there is no research that investigates the performance of the acquired firms of EMNEs in DEs, with the exception of Buckley et al. (2014).

In terms of the theoretical approaches that have been employed to understand the performance consequence of CBMAs by EMNEs, a majority of the literature focuses on internalization theory (Buckley and Casson, 2009) and the resource-based view (Buckley et al., 2014). This is surprising

given the fact that a large number of studies of EMNEs have emphasized different institutional contexts between emerging economies (EEs) and DEs (Hyun and Kim, 2010, Malhotra et al., 2009, Luo et al., 2010, e.g. Di Giovanni, 2005). DEs tend to have developed institutions characterized by well-developed factor markets, few government interventions and an effective mechanism for contract enforcement. The costs of doing business there are likely to be low, which facilitates economic activities. EEs tend to have less advanced or incomplete institutions and local firms face constraints resulting from insufficiently developed market-supporting institutions as well as additional hazards, restrictions and costs. As recognized by institution theory, the success of a firm is not only a matter of organizational learning and firm attributes, but is also influenced and shaped by the institutional context within which the firm operates. The institutional context determines the costs and complexity of business transactions, which has a direct bearing on firm performance. In the context of EMNEs in DEs, I expect this is a sphere where national formal and informal institutional factors play a greater role than in the context of multinational enterprises from DEs (DMNEs) in DEs. To what extent EMNEs can adapt to the DE institutional context and improve the performance of acquired firms is therefore an important research question. To fill the research gap, I take the institution-based view to answer the question: How does institutional distance matter to the performance of acquired firms of EMNEs in DEs?

My study contributes to the existing CBMA literature in several ways. Regarding CBMA research, I develop and test a conceptual framework that approaches the performance question of EMNEs' CBMAs from an institution perspective, highlighting the effects of institutional distance (ID) between the home and host countries on the performance of acquired firms of EMNEs in DEs. In so doing, my study moves away from the sole focus on firm-level variables emphasized in internalization theory and the resource-based view to incorporate institutional factors. Thus this research complements the only study of the performance of acquired firms of EMNEs in DEs, by Buckley et al. (2014), which mainly focuses on the firm-level factors of EMNEs' tangible resources and acquisition experience. Different from existing literature on the role of institutional distance in firm performance, I also recognize the different dimensions of institutions – formal institutions and informal institutions – and argue that institutional distance does not always have a negative impact on firm performance. In the context of EMNEs' CBMAs in DEs, formal institutional distance is likely to have a positive impact on the acquired firm performance, while it is informal institutional distance that is likely to negatively affect the acquired firm's performance.

Empirically, my dataset covers multiple-host and multiple-home countries in recent years when EMNEs have had substantial activities in DEs (EMNEs from 37 EEs in 24 DEs during 2000-2010). The wide geographic cover of

the sample across a relatively long time period provides potentially good variance to examine firm performance of EMNEs, which minimizes the likelihood that the results are driven by the idiosyncrasies of a specific home or host country. The findings help provide new insights into EMNEs' CBMAs in different institutional contexts and broaden my understanding of complicity associated with firm performance of EMNEs.

This research topic is important, and of growing concern to policymakers, practitioners and researchers because CBMAs are, next to strategic alliances and joint ventures, one of the most important foreign entry modes in a firm's internationalisation. EMNEs' success in DEs depends on how well they understand and appreciate the institutional differences between their home and host countries. From the perspective of home and host country governments, there is often discrepancy between their expectations. Home country governments often encourage EMNEs to invest in DEs so as to bring the knowledge and learning back home, which will not only benefit the EMNEs per se, but also generate spillover effects which benefit partners of EMNEs and other domestic firms. On the other hand, EMNEs' CBMAs in DEs are sometime met with hostile reactions from the host country government and general public. Governments therefore need to understand the institutional factors that influence EMNEs' success in DEs.

This chapter is structured as follows. Section 5.2 provides a literature review and develops hypotheses. Section 5.3 explains data and methodology. Section 5.4 presents the results of regressions. Section 5.5 discusses empirical findings and implications, and is followed by the conclusions in section 5.6.

5.2 Literature Review and Hypotheses Development

5.2.1 Institution and CBMAs by EMNEs in DEs

North (1990) argues that institutions provide the rules of the game that organizations have to follow in their interactions with various actors in societies. These rules of the game impose both formal constraints and informal constraints on organization behaviours, strategies and practice. Formal constraints refer to laws, constitution and regulations. Informal constraints refer to conventions, norms of behaviour and self-imposed codes of conduct. An alternative definition of institutions is provided by (Scott, 1995) as “cognitive, normative, and regulative structures and activities that provide stability and meaning to social behaviour”. Thus the institutional framework has three pillars – cognitive (the widely shared social knowledge and perceptions of what is typical or taken for granted), normative (social norms, values and beliefs that define what is appropriate and right for a

society's member) and regulatory (existing laws and rules). Two pillars in Scott's definition – cognitive and normative pillars – are conceptually close to each other and to culture, or informal institutions, in North's definition, while the regulatory pillar resembles formal institutions (Scott, 1995). Henceforth, in my discussion below, I will focus on formal and informal institutions. Dunning and Lundan (2008) indicate that both formal and informal institutions are required to build effective and properly-functioned markets. In this respect, the formal institutions protect private property and enforce the contracts, and informal institutions minimize transaction costs and reduce the occurrences of contract renegotiation and conflicts.

In the context of CBMAs by EMNEs in DEs, institutions are particularly important. Organizations must follow the rules set up by institutions, but institutions are country-specific (Kostova and Zaheer, 1999, Eden and Miller, 2004). As far as CBMAs are concerned, this implies that rules, regulations and norms of doing business vary across countries. Institutions in DEs are characterized by well-functioned factor markets, few government interventions and an effective mechanism for contract enforcement. The costs of doing business there are likely to be low. In contrast, EEs tend to have less advanced or incomplete formal institutions. Local firms face constraints resulting from the lack of reliable market information, efficient intermediary institutions, predictable government actions and an efficient

bureaucracy (Chan et al., 2008, Khanna and Palepu, 1997). Such institutional differences between DEs and EEs present both challenges and opportunities to EMNEs.

On one hand, the differences in institutional contexts may present challenges as EMNEs face additional hazards, restrictions and costs when operating in an unfamiliar context. By definition, a firm is most acquainted with its domestic institutional context, both formal and informal. The inexperience with different institutions and the problems in managing relationships at a distance could lead to “liability of foreignness” and additional costs, for example the costs of monitoring and negotiating, dispute settlement, opportunistic behaviour of partners and the lack of trust. As the institutional differences between the home and the host country increase, the costs increase (Gaur and Lu, 2007). On the other hand, institutional differences also present opportunities for institutional arbitrage. Given the weak formal institutions of their home countries, EMNEs are attracted by the strong formal institutions of DEs for strategic-assets seeking and new market exploration. As the institutional differences between the home and the host country increase, the differences between the resources and capabilities of the EMNEs developed at home and the resources available in host countries will become more considerable, presenting potential benefits from institutional arbitrage (Gaur and Lu, 2007). The role

of institutions in CBMAs by EMNEs in DEs therefore is not as clear-cut as what has often been portrayed in the literature, i.e. large institutional distance only creates barriers and costs to CBMAs (Dikova et al., 2010).

5.2.2 Institution and Firm Performance

According to North (1990), institutions and organizations co-evolve in close interaction. The institutional context provides foundations for production of firms and business transactions (Trevino et al., 2008). Institutions such as rules, laws, routines and norms produce incentives as well as obstacles for business activities. Such incentives and constraints structure the characteristics, behaviours and managerial actions of firms and the interactions between firms, which in turn affect firm performance (Schoenberg, 2006, Trevino et al., 2008). Moreover, institutions affect firm performance through influencing the efficiency and effectiveness of business activities, resource allocations and incentives for business activities (Peng et al., 2008). Institution-based knowledge and operations are especially needed by firms to become competitive in a specific institutional context. Therefore, the success of the firm is not only determined by firm-specific factors, such as management skills and organizational learning, but is also influenced by the broad institutional context.

A strong institutional framework provides a favourable context for firms which in turn has a positive effect on firm performance. First, financial institutions can offer firms multiple channels for raising funds, and can reduce the burden of high costs associated with business activities and provide incentives for firms (Schoenberg, 2006). Second, educational institutions offer firms a high-quality managerial and technological human resource, which is one of the key components of improving firm performance (Deng, 2009, Buckley and Casson, 2009). Moreover, firms can build links with educational institutions such as research and development centres and universities in order to stay close to the frontier of knowledge, skills and technologies, with which the quality of products and reputation of firms can be improved, which will in turn help firms win more market share and gain more profits. Third, legal institutions can protect the interests and returns of firms and provide firms with incentives to engage in profitable business activities. Strong legal institutions can also detect illegal imitations and property right violations and help firms protect their technological products and gain high returns from R&D. Fourth, the government and political system are an important part of institutions which can affect firm performance (Dunning and Lundan, 2008). A successful government should implement a set of policies to build strong institutions which are constructive for business activities by both MNEs and indigenous firms. Such policies include policies to stimulate competition, policies to enhance

social cohesion, policies to secure accountability and transparency in government, policies to guarantee participation in political system, policies to secure the implementation of laws, policies to monitor financial institutions, policies to improve communication and transportation infrastructures, policies to support the national economy and industries, policies to protect intellectual property rights (IPR), and policies to invest in educational and R&D institutions. Under such institutions, firm performance is likely to experience improvement as the efficiency and effectiveness of business activities can be enhanced and the costs and risks can be reduced.

On the contrary, under a weak institutional framework, firms are likely to engage in costly market transactions and experience less efficient transformation. First, weak financial institutions will block a firm's business activities and opportunities for making profits through hindering the channels for raising funds and increasing the costs at the same time. Firms may lose market opportunities as a result. Second, firms may have difficulty in finding qualified and capable employees because of weak educational institutions, which may raise their costs of operation because they have to seek an alternative stock of human resources or provide training programmes. Third, a weak legal institutional framework cannot help firms fully protect their interests and returns. A large number of illegal imitators

and property right violations may appear due to the imperfections and inefficiency in the legal system. Fourth, Trevino et al. (2008) argue that over-bureaucratic government, monopolistic control and arbitrarily implemented rules could produce negative institutions which restrict the creation of profits and returns by firms. A cumbersome institutional framework can retard the pace and lower the efficiency of business activities (Lipczynski et al., 2005). Under weak government and political institutions, firms are confronted by various risks and uncertainties produced by the cumbersome institutional framework. The transaction costs of business activities may be increased because firms may need to protect their assets and prevent the unwanted dissemination of knowledge and information, and may face unenforceable contracts (Chan et al., 2008). With lowered efficiency and effectiveness, firms may have to invest more resources into seeking quality institutional assistance and overcoming institutional barriers. The above discussion points to the importance of integrating the institution-based view into the analytical framework when investigating firm performance.

5.2.3 Institutional Distance between Host and Home Countries and the Performance of Acquired Firms of EMNEs in DEs

North (1990) suggests that “the institutions necessary to accomplish economic exchange vary in their complexity”. In this section, I separate out the impact of formal institutions and informal institutions on firm performance, in particular the performance of acquired firms of EMNEs in DEs. Formal institutions such as laws, government policies and administrative institutions determine the formal structure of rights in transactions and exchanges and also determine the costs of making such transactions and exchanges (Dikova et al., 2010). The complexity of formal institutions in the CBMA is high, as the CBMA firms are affected by both the host countries’ formal institutions, such as the regulatory scrutiny upon CBMA firms, and the home countries’ formal institutions, such as policies of governing outward foreign direct investment (OFDI) (Bittlingmayer and Hazlett, 2000). This complexity in the formal institutional context increases transaction costs and affects firm performance. From the perspective of informal institutions, firms are often deeply rooted in the national informal institution of the home country (Dikova et al., 2010). This indicates that any changes within a firm may carry some degree of difficulty or sluggishness. In the case of CBMAs, it may be demanding to work out how the resources of the acquiring firm and those of the acquired firms could be combined and

put into their most productive use. This is a process of change and is bound to be affected by informal institutions. As argued in the foregoing section, the average firm performance is likely to be low in host countries with weak institutions and high in host countries with strong institutions. However, not all acquired firms of EMNEs are affected equally by the home or host country institutions. I will argue below that the performance of acquired firms varies according to the formal and informal institutional distance. Institutional distance captures the differences between the institutional context of two countries (Kostova, 1999).

5.2.4 Formal Institutional Distance

The formal institutional context for firms is complex because they are subject to a regulatory scrutiny. Such institutional complexity rises significantly in the case of CBMAs, because the nation-specific formal institutions of the acquired firms can be different from those of the acquirers'. The acquirers typically have a better understanding of their home country institutions. Adjusting to an institutional context that is closer to home is easier and involves less cost than adjusting to an institutional context that is further away from home. Information asymmetry and differences in the laws and regulations and government policies may significantly increase the costs of business activities and reduce the amount

of resources allocated by the acquirer to the acquired firms, affecting the performance of the acquired firms negatively (Dikova et al., 2010). For example, Australia, Canada, UK, US and other Anglo-Saxon countries primarily use the common law system, which is more familiar to Indian firms than Mexican firms, who are from a country which employs primarily the civil law system. Such differences in legal institutions give more pressure for the latter firms to comply with unfamiliar laws, rules and regulations, and as a result they incur more costs.

The above arguments, though they appear to be plausible, may not be fully applicable to CBMAs by EMNEs in DEs. Following the institutional escapism view (Luo et al., 2010, Boisot and Meyer, 2008, Goldstein and Pusterla, 2010, Tolentino, 2010, Witt and Lewin, 2007), EMNEs undertake CBMAs in DEs in order to seek a better formal institutional context for their business, acquire strategic assets to compensate their competitive deficiency and improve capabilities. DEs' well-established institutions ensure transparency and contract enforcement, warrant low information asymmetries and prompt EMNEs to spend less resources on dealing with formal institutions. Therefore, in comparison to EMNEs' home countries, the more distant formal institutional context indicates a better institution for the acquired firms of EMNEs. As described by Eden and Miller (2004), formal institutions have a codified nature and therefore can be the easiest

element for outsiders to observe. Likewise, Gaur and Lu (2007) suggest that even when formal institutional distance is large, “foreign firms can easily find information about these aspects on their own, using secondary sources”. Therefore, on balance, between the extra costs EMNEs incur to familiarize themselves with the host country institution and the benefits they gain from operating in DEs with strong formal institutions, large formal institutional distance may bring good firm performance.

Hypothesis 1: Formal institutional distance is positively associated with the performance of acquired firms of EMNEs in DEs.

5.2.5 Informal Institutional Distance

In contrast to formal institutions that offer defined rules of games and firms that can relatively easily develop strategies to address these constraints, informal institutions stipulate expectations and obligations for behaviour that are both internalized by agents and reinforced by the beliefs and actions of those with whom they interact and that are a product of both present incentives and historical processes. Therefore, informal institutions may be mostly opaque to foreign firms. Incompatibilities in social norms, values, beliefs and assumptions and other informal constraints can affect performance (Dikova et al., 2010). High cultural differences can be perceived as involving high post-merger management costs (Kogut and

Singh, 1988, Ahern et al., 2013). Overcoming time-consuming and costly inter-cultural conflicts in co-operation reduces the performance of CBMAs (Weitzel and Berns, 2006). Furthermore, large informal institutional distance brings more international transactions costs, because of misrepresentation and poor communication between acquired and acquirer firms (Eden and Miller, 2004). These differences may prolong the host country's "continuing suspicion towards the MNE" (Kostova and Zaheer, 1999).

Two different managerial teams in CBMAs may resist or find it quite time-consuming to learn about and integrate with each other. The co-operation with local or domestic firms is likely to be more trustful and reliable to the acquired managerial team (Very and Schweiger, 2001, Very et al., 1998). Slangen (2006) finds cultural dissimilarities between acquirer and acquired firms makes it hard for managers to execute organizational practices, and it is more costly to transfer strategic resources. Differences in culture may bring conflicts or disputes. In Liu and Buck's (2009) study of CBMAs between Chinese firms (TCL) and French firms (Thomson), one of the most important reasons leading to failure is that the "spontaneous" French working style cannot cope with the "diligent" Chinese working style. Holiday comes second in Chinese firms while it is first to French firms. Furthermore, they also find that the success of the Lenovo-IBM ThinkPad is powered by assignments of CEOs working with each other to learn and

teach different corporate and social cultures (Liu and Buck, 2009). Slangen (2006) also points out that cultural distance can lead to brain drains of human resources, and further harm firm performance. Some employees in acquired firms are embedded in their own culture (Very and Schweiger, 2001, Very et al., 1998). They may act with discomfort, or be stressful or hostile to CBMAs, especially acquirers from emerging economies. As a result, the effects on productivity, R&D and financial resources can reduce the firm value (Very and Schweiger, 2001).

In sum, all these existing and potential risks brought by informal distance may harm firm performances, especially in the short-term in the beginning of the post-acquisition period.

Hypothesis 2: Informal institutional distance has a negative impact on the performance of acquired firms of EMNEs in DEs.

5.2.6 The Empirical Evidence on CBMA Performance

When examining CBMA performance, existing research has employed a number of different measures including stock price returns, longevity of the venture, survival, deal completion and abandonment, and sales and profitability (Shimizu et al., 2004, Dikova et al., 2010, Buckley et al., 2014, Zhang et al., 2011). Among these, the most common one is stock price

returns, used to focus on pre-event expectation and post-event performance by using event study (Zollo and Meier, 2008). Between the pre-event expectation and post-event integration processes, the consolidation effect of CBMAs can improve the cost and revenue of overall firm performance, further reflected by the positive return on the stock price (Fama et al., 1969). The performance of CBMAs is examined by focusing on the abnormal return of stock price in the post-acquisition period (Jemison and Sitkin, 1986, Rossi and Volpin, 2004, Haspeslagh and Jemison, 1991, Fama et al., 1969, Markides and Ittner, 1994). For example, Brown et al. (1988) point out that a high premium bid offered by acquirers can positively result in the increase of stock price return. Brown et al. (1988) show that changes in both variance and return caused by events normally lead to a temporary increase of abnormal returns. Zollo and Meier (1969) review studies of CBMA performance from 1983 to 2007, and find out that short-term performance studies focusing on stock prices make up to 40% of total studies. CBMAs can positively influence the value creation of overall acquired firm performance (Haspeslagh and Jemison, 1991, Jemison and Sitkin, 1986, Rossi and Volpin, 2004). However, it can be argued that the short-term event study analysis of firm performance can be biased (Haspeslagh and Jemison, 1991, Jensen and Ruback, 1983). Limited factors are considered in event study analysis, especially the missing of some important information, such as about the economic and legal system and other institutional factors.

Because EMNEs seek intangible assets and resources in DEs, accounting factors may better reflect firm performance (Fama et al., 1969).

The empirical studies on the role of institutions in affecting CBMA performance are quite limited. Taking the completion of an international acquisition deal to be a manifestation of organizational success, Dikova et al. (2010) investigate the role of formal and informal institutions and propose that both formal and informal institutional distance between the partners' home countries negatively affect the likelihood that an announced cross-border acquisition deal will be completed. Based on 2,389 announced CBMA deals in the global service industry between 1981 and 2001, they find evidence to support their hypotheses. However, this study does not differentiate the countries of origin of the acquirers, nor does it the countries of origin of the acquired firms. As my hypotheses above demonstrate, countries of origin of both the acquirers and the acquired firm may affect the argument.

A few studies have investigated the important role of cultural distance, an important part of informal institutional distance, in explaining the performance of the acquired firms. Barkema et al. (1996) identify that the presence of cultural difference between acquirers and acquired firms in CBMA performs as "barriers" in organization learning of firm performance.

Schoenberg (2004) examines both individual management style and managerial team compatibility in CBMAs by British firms, and the results clearly show that cultural difference brings difficulties in both individual management style and managerial team compatibility, and this further affects the organizational interaction and post-acquired firm performance. Slangen (2006) suggests that there is a negative relationship between cultural distance and performance of acquired firms, based on a sample of 102 CBMA cases carried out by Dutch firms in 30 nations. Stahl and Voigt (2005) review the prior research on the effect of culture on CBMAs, focusing on the performance implications for firms. They suggest that the inconclusive findings from prior literature require further investigation on the role of cultural differences in affecting CBMA performance. In summary, the existing empirical studies have not paid full attention to the role of formal and informal institutional distance/differences in the performance of acquired firms of EMNEs in DEs.

5.3 Data and Methodology

5.3.1 Data

My empirical analysis is based on data gathered from three sources: the SDC Platinum Database, Lexi-Nexis Academic Universe Database and

Berry et al. (2010). SDC reports CBMA deals completed by EMNEs in the OECD countries. Lexi-Nexis records financial information of acquired firms, such as return on assets and earnings per share. Eight countries (Chile, Czech Republic, Estonia, Hungary, Mexico, Poland, Slovak Republic and Turkey), considered as EEs, became members of the OECD during the sample period. Given my research interests, they are only retained in the EE category. The full list of involved EEs is provided in the appendices. As a result of careful screening of data, deleting observations with missing data and collaborating with information from other sources such as company websites and company reports, the final sample contains 694 completed CBMA transactions by EMNEs from 37 EEs in 24 OECD countries during the period 2000-2010 (Appendix 2). The nations of origin of CBMAs in my data are listed in Table 11. This sample has a larger size and covers a broader range of EEs than recent studies of CBMAs by EMNEs, for example by Buckley et al. (2014). For country-level data, Berry et al. (2010) provide eight dimensions of institutional distance between countries, including political distance (PD), economic distance (ED), financial distance (FD), administrative distance (AD), knowledge distance (KD), global-connectedness distance (GCD), demographic distance (DD), and cultural distance (CD), in addition to geographical distance (GD) (see Table 6 for variable definition and components).

Table 11 Acquirer Nations and Target Nations by Number of CBMAs in Data Sample, 2000-2011

Acquirer nation	Number of CBMAs by acquirer nation	Target nation	Number of CBMAs in target nation
Argentina	6	Australia	107
Bahrain	9	Austria	7
Brazil	31	Belgium	6
Bulgaria	2	Canada	48
Chile	7	Denmark	8
China	95	Finland	9
Colombia	4	France	32
Czech Republic	2	Germany	47
Egypt	4	Greece	4
Estonia	5	Ireland-Rep	1
Hungary	4	Israel	6
India	130	Italy	13
Indonesia	6	Japan	9
Jordan	1	Luxembourg	1
Kuwait	9	Netherlands	17
Latvia	2	New Zealand	3
Lithuania	4	Norway	12
Malaysia	44	Portugal	11
Mauritius	2	South Korea	12
Mexico	39	Spain	33
Morocco	1	Sweden	7
Nigeria	2	Switzerland	7
Oman	4	United Kingdom	133
Peru	2	United States	161
Philippines	7		
Poland	14		
Qatar	17		
Russian Fed	74		
Saudi Arabia	8		
Slovak Rep	6		
South Africa	76		
Thailand	4		
Turkey	7		
Ukraine	2		
Utd Arab Em	59		
Venezuela	2		
Vietnam	3		

Source: Authors' calculations of data from the SDC Platinum Database.

5.3.2 Dependent Variable

Following existing studies (Stahl and Voigt, 2005, Hart and Ahuja, 1996, Peng and Luo, 2000, e.g. Agrawal and Jaffe, 2001, Buckley et al., 2014), I use the difference of return on assets (ROA) and the difference of earning per share (EPS) of the acquired firm between a year before and a year after the completed CBMA transaction as dependent variables to capture the financial and market aspects of firm performance. The first dependent variable – ROA – provides a direct measure of a firm’s profitability, which can be linked to other performance measures such as output and sales. The second variable – EPS – reflects the market reaction to CBMA deals by EMNEs. Together they enable us to investigate the effects of institution-, industry- and firm-level variables on the performance change of acquired firms before and after CBMA deals, rather than on their absolute value, thus avoid biases associated with firm size (Buckley et al., 2014).

5.3.3 Independent Variables

I combine firm-level dependent variables with independent measures of institutional distance provided by Berry et al. (2010). My hypotheses relate to two categories of independent variables at institutional level: formal institutions and information institutions. As per North’s (1990) conception

of institutions, political, economic, financial and administrative distance seem to capture the formal institutional aspects, whereas knowledge, global-connectedness, demographic and cultural distance are related to the informal aspects of the institutional distance between countries. Differently from the existing studies of institutional distance, such as Gaur and Lu (2007) and Chao and Kumar (2010) that aggregate different measures into two distinct variables using factor analysis or weighted average, I separately investigate the effects of the different dimensions of formal and informal institutional distance on the performance of acquired firms of EMNEs in DEs. This will help fully characterize a firm's institutional context.

In addition to the eight dimensions of institutional distance, I include geographic distance (GD) in my analyses because it has long been recognized to be important to CBMAs (Zaheer and Hernandez, 2011, Hyun and Kim, 2010). Table 6 shows the components of eight dimensions of institutional distance and geographic distance. Each distance index is integrated and calculated with different component variables, which means the distance index not only tries to cover most popular variables, but also considers the calculation of distances between pair countries.

I include a number of firm- and industry-level control variables: the number of employees and net assets (NA). Industry dummies are employed to control for the variations in different industries.

5.4 Results

As discussed above, stock price return is often used to measure firm performance. Firms in different emerging and OECD countries have different stock market indices. Different deal announcement dates provide a complex transaction window. These limitations of non-linear stock price data make the event study unfeasible. However, I have stock prices data of four specified days; I acquired firms' stock price (i.e. the stock price of the acquired firm) on the day of announcement, one day prior to the announcement, one week prior to the announcement, and four weeks prior to the announcement. A descriptive statistics test is adopted.

$$\begin{aligned} \bar{V}_t &= \frac{1}{N} \sum_{n=1}^n (\text{acquired firms' stock price on the day of announcement} \\ &\quad - \text{acquired firms' stock price } t \text{ day prior to the announcement}) \end{aligned}$$

where

$t = 1$ day, 1 week, 4 weeks prior to the announcement

$N =$ sample size

$\bar{V}_t =$ average value of differences between stock prices.

Results show that all \bar{V}_t s are positive and when the day comes closer to the announcement day, \bar{V}_t becomes smaller. $\overline{V_{1 \text{ day}}} = 0.29$, $\overline{V_{1 \text{ week}}} = 0.61$, $\overline{V_{4 \text{ weeks}}} = 1.11$. These results show that EMNEs' CBMAs can positively improve stock prices of the acquired firms. However, the descriptive analysis and stock price cannot show what factors influence firm performance. Therefore, I implement further regression analysis.

Table 12 presents the descriptive statistics and correlation analysis of variables under consideration. A review of the correlations between the explanatory variables indicates that multicollinearity is unlikely to be an issue except between ED and KD, given their slightly high correlation coefficient. However, VIF (variance inflation factor) scores range between 1.01 and 2.24, which is much lower than the rule of thumb threshold value of 10. Thus there are no potential multicollinearity problems.

Table 12 Descriptive Statistics and Correlation Matrix

Variable	Mean	s.d.	CD	ED	GD	PD	DD	AD	FD	GCD	KD	NA	Employee
ROA	0.6207	2.7537											
EPS	0.3504	2.7603											
CD	72.3314	23.2710											
ED	14.4657	8.1835	0.4138										
GD	7480.4150	3585.7940	-0.0504	0.2358									
PD	200.2802	74.7212	0.3248	0.4686	0.2617								
DD	12.9477	16.1892	-0.0501	-0.3561	-0.3911	-0.0491							
AD	20.4219	83.9298	-0.2396	-0.2810	-0.0885	-0.4153	-0.2051						
FD	11.5176	83.7575	-0.1433	-0.0026	0.1528	0.0679	0.0177	-0.1479					
GCD	11.5198	83.4449	-0.0178	0.0166	0.2373	0.2019	-0.1766	0.1954	0.1865				
KD	33.2857	194.2587	0.2083	0.6836	0.3586	0.6425	-0.2174	-0.3775	0.1926	0.2092			
NA	15.4409	10.0781	0.0088	-0.1310	0.0263	-0.1013	0.1267	0.0006	0.1141	0.0037	-0.0989		
Employee	7721.6050	36424.4900	-0.1652	-0.1607	0.0434	-0.0928	0.0288	0.0689	0.1351	-0.0144	-0.1004	0.6500	
IID			0.0047	-0.0419	0.0110	0.0566	0.0265	0.0451	-0.0212	-0.0334	0.0153	-0.0074	-0.0355

Table 13 presents regression results. The ROA results show ED and PD are statistically significantly and positively affect firm performance, while CD and KD have a statistically significantly negative effect on acquired firm performance. The EPS results show ED, PD and AD have statistically significantly positive coefficients, while CD has a statistically significantly negative effect on firm performance. These confirm that the acquired firms are more likely to be positively influenced by formal institutional distance between EMNEs' home and host countries in the areas of economics (economic development and macroeconomic characteristics), politics (political stability, democracy and trade bloc membership) and administration (colonial ties, language, religion and legal system), supporting H1. H2 is also supported with the evidence that the acquired firms are more likely to be negatively influenced by informal institutional distance between EMNEs' home and host countries in the areas of culture (power distance, uncertainty avoidance, individualism and masculinity) and knowledge (patents and scientific production). Cross-country differences in financial sector development, demography and global-connectedness dimensions have no impact on firm performance. Below I will discuss the results in details.

Table 13 Estimation Results of Firm Performance

	ROA	EPS
PD	0.016*** [0.006]	0.015*** [0.005]
ED	0.075* [0.045]	0.083** [0.035]
FD	0.066 [0.074]	-0.075 [0.065]
AD	0.006 [0.019]	0.072** [0.029]
KD	-0.095** [0.047]	-0.005 [0.030]
GCD	0.048 [0.071]	-0.085 [0.076]
DD	-0.026 [0.031]	0.007 [0.021]
CD	-0.037** [0.016]	-0.041** [0.017]
GD (x 10 ⁻³)	-0.021 [0.005]	-0.0015** [0.005]
Number of employees (x 10 ⁻³)	-0.021 [0.013]	-0.024 [0.018]
NA	0.013 [0.018]	0.000 [0.019]
R ²	0.263	0.404
N	90	110

Industry dummy included in the estimation. Robust standard errors in parentheses.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$, # < 0.12

5.5 Discussion

Firm performance associated with CBMAs has been widely investigated, drawing insights mostly from accountancy, finance, economics and management (Bauer and Matzler, 2014). However, the academic focus on EMNEs' CBMAs from the institutional perspective is very limited. In the meantime, EMNEs have played a significant role in international business in

the global landscape, especially as their CBMA activities are becoming phenomenal. My findings on acquired firm performance in EMNEs' CBMAs have several theoretical contributions. First, I adopt the institution-based view to firm performance research. Although there are extensive studies on firm performance of CBMAs, they mainly focus on finance, stock, and other firm-level contexts (Bauer and Matzler, 2014). Internalization theory (Buckley and Casson, 2009) and the resource-based view (Buckley et al., 2014) are the main leading theories in studies of firm performance. I expand the view from the institutional perspective. Given the fact of significant influence of institutional distance between EEs and DEs, my comprehensive framework compensates the research pool with institutional approach. To understand the institutional distance between host and home countries is the key to the success of EMNEs' CBMAs. Second, unlike the previous studies, I cover multiple-host and multiple-home countries to provide unbiased results of institutional distance and firm performance. My examination proves that institutional distance is potentially good variance to most EEs' and DEs' interactions. Furthermore, my findings broaden the theoretical context with the insight of different aspects of institutional distance. I distinguish them into formal institutions and informal institutions by following the institution theory (North, 1990). Surprisingly, the results show that different types of institutions have different effects on acquired firm performance. The formal aspect of

institutional distance tends to have a positive effect on acquired firm performance. To be more specific, on balance, between the extra costs EMNEs incur to familiarize themselves with the host country institution and the benefits they gain from operating in DEs with strong formal institutions, and that acquired DMNEs receive strong financial support and attention from EMNEs, large formal institutional distance therefore may bring good firm performance. Meanwhile, sometimes acquirers find it hard to absorb and transfer the advanced knowledge. As a result, the large knowledge distance forces acquirers to invest in their own R&D to digest the knowledge transfer from acquired firms, instead of the R&D reinvestment in acquired firms, which leads to a decline in acquired firm performance. Unfamiliarity with the culture between EMNEs and DMNEs may bring time-consuming and costly organizational learning and cultural inter-conflict at both managerial and individual levels, so the informal aspect of institutional distance is negatively related to acquired firm performance.

The research findings have significant implications for both corporate managers and policy makers. First of all, the results suggest that economic distance between host and home country has a significant and positive effect on the performance of acquired firms, which means that larger economic distance results in better performance of acquired firms. The economic

distance in the dataset is associated with the volume of national imports and exports. The larger economic distance therefore means acquired firms can hopefully have contacts with geographically enlarged markets around the globe due to the larger economic distance. When CBMAs happen, the acquired firms and acquirer firms can share resources that they possess with each other, with the purpose of enhancing communication and interaction, improving the integration process, and facilitating technological and managerial skill and knowledge sharing and exchanges. Such resource sharing includes the sharing of product markets around the globe. As a result, the enlarged global markets will help with the growth in market share of acquired firms, which can improve firms' returns and performance.

Second, the findings indicate that political distance between host and home country positively influences the performance of acquired firms, which means that larger political distance results in better performance of acquired firms. When the political distance gets larger, the poorer political institutions in the home countries will push firms to escape and seek more efficient political institutions and supporting policies overseas in the host countries. In the meantime, the relatively more attractive political institutions and policies in host countries can produce pulling effects. as they can offer more efficient political institutions and help acquirer firms diversify political risks and uncertainties generated from their home countries. As a result, in order

to enhance the capabilities and significance of the position of acquired firms and build them into “overseas headquarters”, the acquirer firms will invest heavily into the acquired firms with the purpose of diversifying risks and uncertainties generated from home countries.

Third, the results suggest a positive and significant relationship between administrative distance between host and home country and acquired firms’ performance in earnings per share, which means that larger administrative distance results in better performance of acquired firms. The administrative distance in the dataset is associated with the legal system in a country. The larger administrative distance means a larger distance in legal institutions between host and home countries. The poorer legal institutions in home countries are associated with issues such as violations of property rights and illegal imitations, which will produce bad effects on firm performance of EMNEs. Therefore, when there are poor legal institutions present in home countries, EMNEs will escape and seek better legal protection on their innovation outcomes such as patents, new products and new processes in host countries where there are more efficient and stronger legal institutions and protection on returns from R&D. When this happens, EMNEs will transfer their innovation fruits and intellectual properties to host countries and acquired firms in order to get better and more efficient protection there. Acquired firms with transferred innovation fruits from acquirer firms can

expect improved returns and performance as the quality of their products and their reputation and operational efficiency will become better.

Fourth, the findings reveal that the knowledge distance between host and home country generates a significant and negative impact on the acquired firms' performance in ROA, which means that larger knowledge distance results in worse performance of acquired firms. When large knowledge distance is present between host and home countries, the technological gap is normally large as well. However, with a large technological gap between acquirer firms and acquired firms, the EMNEs' firms (acquirer firms) may not have enough absorptive capacity to learn and assimilate the technological spillovers from acquired firms in host countries. Then the acquirer firms have to invest into their own R&D with the purpose of enhancing R&D capability and catching up with the acquired firms, and have to reduce the amount of funds and R&D personnel transferred to acquired firms in a given time. Despite the fact that acquirer firms may be willing to integrate with acquired firms and share resources with them, the shortfall in technology and knowledge will inevitably result in inefficiency and ineffectiveness in communication and interactions. All of the above scenarios may result in the poorer performance of acquired firms.

Finally, the results of cultural distance prove that firm performance is significantly affected by large cultural distance between EEs and DEs. National culture and corporate culture cannot be ignored. Unlike the usual CBMAs from DEs to DEs, a large cultural gap between DEs and EEs brings similarities in integration and co-operation of post-CBMAs. Furthermore, when DEs dramatically reverse from the historical role of acquirer to the modern role of target, a sharp collision between DEs and EEs is encountered. Managerial teams in DE firms seem to lack confidence in improving firm performance. Losses in loyalty and valuable human resources affect the firm performance. No matter whether acquirer or acquired firms, an open and learning mind needs to be established in CBMAs. For both sides, embrace is the way to success of CBMAs. Managerial teams should have more interaction. Embedding and mixing different cultures can be time-consuming but necessary. In the cultural collision, more attention is needed to keep part of the core strategic assets – human resources. Otherwise, it may affect the value of the firms.

In addition, influence by geographic distance between countries is consistent with previous findings (Clark and Pugh, 2001, Dow, 2000, Dunning and Lundan, 2008). Geographic distance brings more costs in communication and transportation. An acquired firm performs better when it is closer to the acquirer, which can reduce economic and administrative

costs (Berry et al., 2010). Coeurdacier et al. (2009) point out geography is negatively influential on firm performance for both sides in emerging countries' overseas activities into developed countries. In general, geography works consistently opposite to EE CBMAs' firm performance.

5.6 Conclusion

In sum, this study provides an analysis of acquired firm performance in EMNEs' CBMAs from the institution-based view. Besides existing findings on firm performance in the stock-return-based measure, I expand the study with the institutional influences in firm performance. This study compensates existing theoretical findings with the distinguishment of institutional distance into formal context and informal context. With explicit distinguishment of formal institution context and informal institution context, this study theoretically enriches the academic work with clear sign and understanding of different functions of formal institutions and informal institution.

In the formal institution context, it is suggested that acquired firms can benefit from large economic distance for a global and wider market. More national economic interaction such as import and export can boost acquired firm performance. Political distance between poor EEs and stable DEs force

EMNEs to escape from home institution to host institution, and acquired firms can receive heavy investment from EMNEs to diversify the risk and uncertainties in home countries. Positive administrative distance gives stronger investor protection in host economies. Acquired firms not only keep their own innovation and intellectual property rights under protection, but they also receive knowledge and other R&D transfer from EMNEs for more efficient protection. Acquired firms under better protection can expect improved returns and performance as the quality of their products and their reputation and operational efficiency will become better.

In the informal institution context, although knowledge and technology can be protected in host economies, EMNEs still seek know-how assets to improve their own R&D, productivity and performance. Sometimes acquirers find it hard to absorb and transfer the advanced knowledge. As a result, the large knowledge distance forces acquirers to invest in their own R&D to digest the knowledge transfer from acquired firms, instead of the R&D reinvestment in acquired firms, which leads to a decline in acquired firm performance. Large cultural distance between EMNEs and DMNEs plays a significant negative role in acquired firm performance. Because of the reverse in role from historical acquirer to current target, the managerial level in acquired firms is culturally distant from EMNEs, and finds it hard to co-operate with EMNEs. Valuable employees may be lost because of the

fear of cultural collision. The existing successful cases of EMNEs' CBMAs in DEs demonstrate an image of good cultural understanding between acquirers and targets.

To conclude, both formal and informal institutional distances have significant influences on acquired firm performance in EMNEs' CBMAs. Managerial teams should not only focus on corporate integration and co-operation, but also from institutional level. Taking an efficient adoption of institutional distance can help acquired firms to reduce risk and costs, and improve the acquired firm performance.

Chapter 6 Conclusion

Emerging multinational enterprises (EMNEs) have actively engaged in outward foreign direct investment (OFDI) in recent decades, especially acquiring firms in developed countries. Behind their impressive and remarkable appearance in international business since the start of twenty-first century, the attractiveness of advanced strategic assets in developed multinational enterprises (DMNEs) and the differences in institutional support and constraints in developed economies (DEs) and emerging economies (EEs) have played a significant role in EMNEs' cross-border mergers and acquisitions (CBMAs). In the meantime, existing studies have mainly focused on the firm-level determinants of EMNEs' CBMAs (Buckley et al., 2007, Shimizu et al., 2004, Buckley et al., 2014). However, academic research on institution context and EMNEs' CBMAs is limited. This thesis aims to conduct a thorough analysis of how institutions matter to EMNEs' CBMAs in the OECD countries.

This thesis first presents an overview of EMNEs' CBMAs in statistics and introduces the theoretical background of institution context in Chapter 2. This is followed by three empirical chapters on institution and EMNEs' CBMAs – in Chapter 3, Chapter 4 and Chapter 5. Chapter 3 examines the determinants of institutional distance in EMNEs' CBMAs by employing

cross-sectional data. Among all the institutional distance effects found in the previous chapter, I give an in-depth look into the impact of political institutions of both home and host countries on EMNEs' CBMAs in Chapter 4, because the political distance has been proven to be decisive and one of the key determinants. Chapter 5 explores the impact of institutional distance on acquired firm performance by using both firm-level and country-level cross-section data. This empirical chapter fills the research gap in firm performance of EMNEs' CBMAs.

This conclusion chapter is structured as follows. Section 6.1 highlights key findings of the thesis. Section 6.2 explains key contributions. Section 6.3 summarizes the implications for managers and policymakers, followed by the discussion of limitations in section 6.4.

6.1 Research Findings

Employing the institution-based view, Chapter 3 examines the institutional distance between the home and the host countries influencing EMNEs' CBMAs in the OECD countries. Hypotheses are empirically tested on the basis of the comprehensive framework developed by Berry et al. (2010) that covers eight dimensions of ID: political, economic, financial, knowledge, global-connectedness, demographic, administrative and cultural distance, in

addition to geographic distance. My empirical results confirm that when making strategic location decisions: 1) EMNEs respond favourably to the larger political, economic and knowledge distance; 2) EMNEs prefer the smaller global-connectedness, administrative, and cultural distance; 3) financial, demographic and geographic distances are found to play an insignificant role. To be more specific, when EMNEs undertake CBMAs in DEs, they pay particular attention to distance between their home and their host countries in the areas of politics (political stability, democracy and trade bloc membership), economics (economic development and macroeconomic characteristics), knowledge (patents and scientific production), global connectedness (tourism and internet use), and administration (colonial ties, language, religion and legal system). Cross-country differences in financial sector development, demography, culture and geography have little impact on their location decisions.

Given the fact that political distance has been proven to be decisive and one of the key determinants, Chapter 4 explores an in-depth look into political institutions of both home and host countries in terms of EMNEs' CBMAs, by employing the World Governance Indicators (WGIs). Estimation results of WGI factors show political stability (PS), regulatory quality (RQ), rule of law (RL) and control of corruption (CC) are statistically significant on the home countries' side, with expected signs, while voice and accountability

(VA) and government effectiveness (GE) are statistically insignificant on the home countries' side. GE, RQ, RL and CC are statistically significant on the host countries' side, with expected signs, while VA and PS are statistically insignificant on the host countries' side. Chapter 4 reports the following findings: 1) on the home country side, the home country pays more attention to PS, RQ, RL and CC in its domestic institution, while VA and GE are not influential on the home country effect; 2) on the host country side, GE, RQ, RL and CC in the host country have a significant function in decision-making of inward CBMAs, and VA and PS draw less attention.

Because institutional studies mainly focus on determinants while major firm performance studies emphasize firm-level influential factors, I give the empirical evidence on the impact of formal and informal aspects of institutional distance on acquired firm performance by using the accounting measure and Berry et al.'s institutional distance framework (2010) described in Chapter 5. My regression results show that ED and PD statistically significantly and positively affect firm performance, while CD, KD and GD have a statistically significantly negative effect on acquired firm performance. The findings suggest that: 1) acquired firms are more likely to be positively influenced by formal institutional distance between EMNEs' home and host countries in the areas of economics (economic development and macroeconomic characteristics), politics (political stability, democracy

and trade bloc membership) and administration (colonial ties, language, religion and legal system); 2) acquired firms are more likely to be negatively influenced by informal institutional distance between EMNEs' home and host countries in the areas of culture (power distance, uncertainty avoidance, individualism and masculinity) and knowledge (patents and scientific production); 3) acquired firms perform negatively when EMNEs are geographically distant; 4) cross-country differences in financial sector development, demography and global-connectedness dimensions have no impact on firm performance.

6.2 Research Contributions

This thesis fulfils a systematic analysis of institutional influence on determinants and firm performance of EMNEs' CBMAs. Only a handful of institutional studies (Malhotra et al., 2009, Shimizu et al., 2004) have looked at EMNEs' CBMAs. Hence this thesis enriches the research agenda of international business and fills the research gap through investigating institution and EMNEs' CBMAs. After reviewing the existing literature and conducting empirical analysis, my research offers some unique institutional perspectives to understand EMNEs' CBMA activities.

My choice to focus on EMNEs' CBMAs in DEs is based on two reasons. First, the existing literature on CBMAs has focused primarily on the traditional players, i.e. the DMNEs. EMNEs are increasingly becoming important players. It is important to know how they react to institutional distance. Second, EEs and DEs are characterized by substantial differences in terms of institutions. In DEs, the established institutions provide sufficient protection for market behaviours and knowledge development, while in EEs the institutions are fragile and legal protections are inadequate, so there is potentially a high threat of opportunism and local firms may have less confidence in knowledge creation. EMNEs investing in the OECD countries through CBMAs represent a challenging but interesting scenario.

One of the main contributions of my study is to offer a comprehensive framework to understand EMNEs' CBMA location decisions through an investigation of the multi-dimensional nature of institutional distance. Linking macro institutions to micro strategic decisions with a key insight of institutional theory, I differentiate it into eight institutional distances. I suggest the firm's strategy should be embedded in the dynamics of institutions. First, most of the existing literature tends to link institutional distance to high transaction costs, high uncertainties and risks, and strong barriers that constrain information flows. However, I updated the research agenda that not all distance dimensions have a negative impact on CBMAs,

and institutional distance could also be an opportunity for a firm. Unlike the market seeking CBMAs by DMNEs, EMNEs adopt CBMAs for strategic-asset seeking. Also the research enriches the research agenda that EMNEs acquire overseas to avoid and break the constraints at home market. As argued by He and Wei (2013), distant markets provide a strong basis for knowledge acquisition and differentiation. In fact, risk perceptions of a distant market may elicit a strong desire for organizational learning. The combination of newly acquired knowledge and skills from a well-developed institution with the firm's existing firm-specific assets (FSAs) developed from the home country can lead to unique resource and capability creation, which offers a source of competitive advantage. EMNEs undertake CBMAs in the OECD countries not only to acquire advanced strategic assets in OECDs, but also to escape the political constraints that they face at home. Frequent global connectedness with more bilateral tourism and the fast development of the internet breaks many constraints associated with time and space and makes information circulation extensive and transparent, which leads to more CBMAs and reduces the negative effect of large geographic distance. Second, I also suggest that some aspects of institutional distance can be insignificant in EMNEs' CBMA location decisions. The negative distant-cultural affect can be moderated to insignificant when the colonial ties, common language, common religion and similar legal systems in administrative distance capture the negative

effect more effectively. Moreover, to add more insights in existing literature with the explicit consideration of different institutional distances, I found that more common language and active immigration can reduce the effect of cultural barrier. More internet use and infrastructure development offer more possibility of EMNEs' CBMAs.

This thesis also contributes to the literature on political institutions and EMNEs' CBMAs. First, my study offers a comprehensive framework for both EEs as home country and DEs as host country. Existing literature mostly focuses on either DEs as home country, or EEs as host country. My study enriches existing literature that when EEs act as the home country, they provide sufficient protection and government of positive agreement for EMNEs. I also suggest that EEs taking better control of corruption and a "clearer" institution can reduce the unpredictable cost and market uncertainty to promote outward CBMAs. When DEs are host countries, my findings are in line with existing literature that DEs attract inward CBMAs because of the favourable political institutions. Moreover, my findings identify that not all the political institutions play a significant role in EMNEs' CBMAs. Political institutions in the home and host markets have different effects on EMNEs' CBMAs. This study theoretically contributes that effects of same political institutions of target and acquirer countries are

different. Scholars should consider the situation that positive political institutions in DEs can be negative in EEs.

Existing studies on firm performance associated with CBMAs have been widely investigated, drawing insights mostly from accountancy, finance, economics and management (Bauer and Matzler, 2014). However, the academic focus on EMNEs' CBMAs from the institutional perspective is quite limited. My research on institutional distance and acquired firm performance in EMNEs' CBMAs gives an empirical aspect, with several contributions. First, I adopt the institution-based view to firm performance research. Internalization theory (Buckley and Casson, 2009) and the resource-based view (Buckley et al., 2014) are the main leading theories in existing studies of firm performance, focusing on finance, stock and other firm-level contexts (Bauer and Matzler, 2014). I expand the view from the national context. Given the fact of significant influence of institutional distance between EEs and DEs, my comprehensive framework compensates the research pool with the institutional approach. To understand the institutional distance between host and home countries is the key to the success of EMNEs' CBMAs. Second, unlike the previous studies, I cover multiple-host and multiple-home countries to provide unbiased results of institutional distance and firm performance. My examination proves that institutional distance is potentially good variance to most EEs' and DEs'

interactions. Furthermore, my findings broaden the theoretical context with the insight of different aspects of institutional distance. I distinguish them into formal institutions and informal institutions by following the institution theory (North, 1990). Surprisingly, the results show that different types of institutions have different effects on acquired firm performance. With explicit distinguishment of formal institution context and informal institution context, this study theoretically enriches the academic work with clear sign and understanding of different functions of formal institutions and informal institution. The formal aspect of institutional distance tends to have a positive effect on acquired firm performance. The informal aspect of institutional distance is negatively related to acquired firm performance.

6.3 Research Implications

The findings of this research have important policy implications for policymakers and practitioners. My first study suggests that policymakers and managers should not only focus on firm strategic assets seeking, but should also consider the decision-making at the institutional level for a comprehensive approach. Governments of home and the host countries should pay attention to political institutions. The awareness of political, economic and knowledge distance between home and host countries could lead EMNEs to merge or acquire firms in more distant countries and benefit

from economic gains that can compensate for perceived risks and uncertainties associated with distant countries. The EE home country government should try to improve the global-connectedness and administrative distances with developed countries. For managerial levels, this comprehensive study suggests that location choice of EMNEs' CBMAs should be based on the evaluation of optimum risk-adjusted benefits. There are benefits as well as costs associated with undertaking CBMAs in an institutionally distant country. It is crucial for managers to understand the systematic institutional differences between countries. It is only through making sense of these differences that EMNEs can adapt their organizational practices and internal procedures to managing these differences and ensuring organizational success. EMNEs may find that it is relatively easy to adapt their practices and routines in response to distance in political, economic and knowledge dimensions, as they have positive impacts on CBMAs. Meanwhile, because global-connectedness and administrative distances have negative impacts on CBMAs, managerial adaptation to institutional pressures along these dimensions may be more challenging.

This research also suggests the policymakers and practitioners for the importance of political institutions, which, however, has previously been neglected. Supportive go-out policies and effective government service in

EEs can encourage EMNEs' CBMAs for less cost. EEs' governments should try to reduce the domestic political constraints, and provide better conditions for EMNEs, in order to help EMNEs' cross-border operations for more profit. For DEs' governments, I suggest that keeping the reputation of protective and supportive institutions can attract more inward CBMAs. DEs should not fear foreign investment and reduce local protectionism. EMNEs undertake CBMAs to gain advanced know-how assets, which would benefit DMNEs with a new, large market in return. For the managerial level of EMNEs and DE firms, strategic assets and human resources at the firm level are no longer the only main determinants. Managers should evaluate the political institutions when they are choosing locations and searching for targets. Besides the benefit from good institutions in DEs, EMNEs' managers should be aware that the resistance from DE's governments can be vital and costly. Synergistic effect and congregation of EMNEs' CBMAs in DEs are becoming more and more popular when national reorganization improves.

The findings of the study of firm performance will help policymakers and practitioners to understand the importance of institutional distance in post-acquired firm performance. The findings suggest to policymakers and governments that more national economic interactions should be made to help target firms for better performance. In order to attract more attention

and investment from acquirers, DEs should keep enhancing the stable and regulated institutions for firms, because acquirers from EEs consider these as risk divarication and stable investment environment. Beside the reputation of less stability and uncertainty of DEs, acquired firms can benefit from their stronger investor protection, because the investor protection not only helps acquired firms to keep their own innovation and intellectual property protection under protection, but they also receive knowledge and other R&D transfer from EMNEs for more efficient protection. As a result, acquired firms under better protection can expect improved returns and performance as the quality of their products and their reputation and operational efficiency will become better. Managerial teams in both acquirers and acquired firms should pay attention to the cultural distance, because EMNEs are normally culturally distant from DMNEs. Both sides may find it hard to co-operate. Valuable employees may be lost because of the fear of cultural collision. Hence, the study suggests that managerial teams should have more interaction. For example, managers can visit or take positions in the other party. Embedding and mixing different cultures can be time-consuming but necessary. Previous successful cases confirm this as an effective way. In the cultural collision, more attention is needed to keep part of the core strategic assets – human resources.

6.4 Research Limitations and Future Research

Although this thesis contributes to the literature on foreign direct investment (FDI), with particular eyes on the new and fast-growing EMNEs' CBMAs, there are some limitations to this study.

At first, this study fails to distinguish the type of CBMAs as horizontal or vertical, majority or minority and by types of industry. The databases used in this study cannot provide that kind of distinction. For example, evidence from previous literature suggests that manufacturing firms are more sensitive to formal institutions, and the service industry focuses more on informal institutions such as the human dimension (Shimizu et al., 2004). With the distinction of the types of CBMAs, results may be more accurate, and certain industries or type of CBMAs may be more sensitive to some of the institutional distances. The influences of institutional distances may be enhanced or different, compared with the results in my study. Future studies with these distinctions can give particular attention to certain types of CBMAs, or compare the different influential levels of institutional distance on different types of CBMAs.

In the meantime, it can be observed that more than half of the CBMA cases in the dataset of this research are made by major emerging economies. Deals

by BRIC (Brazil, Russian Federation, India, China) countries take up to 60% of total number of EMNEs' CBMAs. This can raise two questions: 1) can they present for all the emerging economies? 2) as the institutional distance between BRIC and OECD may not be similar to the institutional distance between small EEs and the OECD, will the results on the latter ones tell a different story? Further studies can focus on other active emerging countries which are recognized as new and rising powers in EEs, such as the MINT countries (Mexico, Indonesia, Nigeria and Turkey).

Moreover, according to the limitation of data availability, this research only considers the number of EMNE CBMAs as dependent variables in the first and second empirical studies. However, previous studies suggest that the volume of FDI can be another indicator of the institutional studies (Benassy - Quere et al., 2007, Globerman and Shapiro, 2002). In other words, future research using the volume of EMNE CBMAs as the second dependent variable can enhance the existing findings in this research.

Further, some of the important firm-level factors should also be considered. It is confirmed that EMNEs' CBMAs will be less costly and time-consuming when either side of the acquirers or acquired firms have previous experience in CBMAs. This can also benefit the firm performance, especially in cultural distance (Liu and Buck, 2009). Moreover, the size of

CBMA deals can also be influenced by institutional distance. Policymakers may pay more attention to a particular CBMA deal when it accounts for large amounts of currency. Unfortunately, the dataset in this research cannot provide such information. Further studies with more adequate data availability can add more into the existing research findings.

Additionally, some of the measures used in this study can be improved. In the first and third research, cultural distance in this research adopts Hofstede's four-dimension framework. It is also long argued that this measure overlaps with other institutional distance. For example, colonies tie captured by administrative distance can have the same function as cultural distance. Geographic distance which adopts the great circle distance between geographic centres of countries, can be improved by the flight duration and aviation distance, because flight duration is more accurate and effective to measure the geographic influence on business activities. In the second research, although Kaufmann et al. who developed it point out that the chances of overlap among the governance indicators are reduced to minimal, the WGI index used in the second empirical study is admitted to be correlated among each of the six governance indicators by previous scholars (Globerman and Shapiro, 2002). However, these indices derive from inherently related measures within government and human capital. Social,

political and economic studies accept the existence of this multicollinearity and try to improve in social, political and economic studies.

Finally, further research can be extended based on the third empirical study of firm performance. As discussed above, although the short-term performance of acquired firms can be biased, the long-term measure can confirm and adjust the existing findings of this research. In addition, EMNEs acquire DE firms to enhance their own comparative advantages, eventually to improve the firm performance of the acquirers, so I believe that future research on acquirers' firm performance is worthwhile.

Appendix 1 List of Emerging Economies and OECDs for Chapter 3 and Chapter 4

There are different lists for “emerging economies” produced by the IMF, the Emerging Market Global Players project at Columbia University, the FTSE Group, MSCI Barra, Standard and Poor’s, Dow Jones, BBVA Research, MasterCard and the Economist. To ensure the comprehensiveness of the study, I included all countries that have appeared in these lists. They are: Argentina, Bahrain, Bangladesh, Brazil, Bulgaria, Chile, China, Colombia, Czech Republic, Egypt, Estonia, Hungary, India, Indonesia, Iran, Jordan, Kuwait, Latvia, Lithuania, Malaysia, Mauritius, Mexico, Morocco, Nigeria, Oman, Pakistan, Peru, Philippines, Poland, Qatar, Romania, Russian Federation, Saudi Arabia, Slovak Republic, South Africa, Sri Lanka, Thailand, Tunisia, Turkey, Ukraine, United Arab Emirates, Venezuela, Vietnam.

And all involving host countries that have appeared in the OECD list as follows: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland-Republic, Israel, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Slovenia, South Korea, Spain, Sweden, Switzerland, United Kingdom, United States

Appendix 2 List of Emerging Economies and OECDs for Chapter 5

There are different lists for “emerging economies” produced by the IMF, the Emerging Market Global Players project at Columbia University, FTSE Group, MSCI Barra, Standard and Poor’s, Dow Jones, BBVA Research, MasterCard and the Economist. To ensure the comprehensiveness of the study, I list all involving home countries that have appeared in these lists as follows: Argentina, Bahrain, Brazil, Bulgaria, Chile, China, Colombia, Czech Republic, Egypt, Estonia, Hungary, India, Indonesia, Jordan, Kuwait, Latvia, Lithuania, Malaysia, Mauritius, Mexico, Morocco, Nigeria, Oman, Peru, Philippines, Poland, Qatar, Russian Federation, Saudi Arabia, Slovak Republic, South Africa, Thailand, Turkey, Ukraine, United Arab Emirates, Venezuela, Vietnam.

And all involving host countries that have appeared in the OECD list as follows: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland-Republic, Israel, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, South Korea, Spain, Sweden, Switzerland, United Kingdom, United States

Abbreviations

AD	Administrative Distance
BRIC	Brazil, Russian Federation, India, China
CBMAs	Cross-Border Mergers and Acquisitions
CC	Control of Corruption
CD	Cultural Distance
DD	Demographic Distance
DE	Developed Economy
DMNE	Developed Multinational Enterprise
ED	Economic Distance
EE	Emerging Economy
EMNE	Emerging Multinational Enterprise
EPS	Earnings per Share
FD	Financial Distance
FDI	Foreign Direct Investment
FSAs	Firm-Specific Assets/Resources
GCD	Global-connectedness Distance
GD	Geographic Distance
GDP	Gross Domestic Product
GE	Government Effectiveness
GLM	Generalized linear model
IB	International Business
IBV	Industry-Based View
ID	Institutional Distance
IMF	International Monetary Fund
IPR	Intellectual Property Rights
IT	Institutional Theory
KD	Knowledge Distance
MINT	Mexico, Indonesia, Nigeria, Turkey
MNE	Multinational Enterprise
NA	Net Assets
OECD	Organization for Economic Co-operation and Development
OFDI	Outward Foreign Direct Investment
PD	Political Distance
PS	Political Stability
RL	Rule of Law
ROA	Return on Assets
RQ	Regulatory Quality
RTA	Regional Trade Agreement
TA	Total Assets

UNCTAD	United Nations Conference on Trade and Development
VA	Voice and Accountability
WGI	Worldwide Governance Indicators
WIR	World Investment Report
WTO	World Trade Organization

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