Strategy impact on the choice of partial versus full acquisitions: evidence from Japanese outbound acquisitions

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Abstract:

In this study, we investigated how strategies adopted by firms impacted their decision to make either partial or full acquisitions in cross-border deals. Our sample comprised Japanese cross-border acquirers that had three different so-called viable strategies, viz. prospectors, defenders, and analyzers. Applying transaction cost economics, the strategic capability perspective and the strategic cognition perspective, we found that not only prospectors but also analyzers preferred full acquisitions, whereas defenders had a preference for partial acquisitions. This study shows that strategy impacts acquisition behavior, and cautions managers to consider aspects of partner opportunism and firm capabilities when choosing between partial and full acquisitions.

Keywords:

Miles and Snow strategy typology; defenders; analyzers; prospectors; partial acquisitions; full acquisitions; M&A; mergers and acquisitions; Japan.

1 Introduction

Entry mode decisions represent a top strategic challenge that firms often face when entering foreign markets. Since acquisitions have become a common entry mode (Danakol et al., 2017), the choice of partial versus full acquisition has received increasing attention in academic literature (Arslan and Wang, 2015; Dang and Henry, 2016). Full acquisition represents a complete ownership transfer of the target to the acquirer. Thus, while the latter subsequently assumes control over the acquired firm, decision-making responsibility and risk increase. In contrast, a partial acquisition represents a fractional ownership transfer. As such, while the acquirer is able to receive the support of local partners, they have also to share the profit with them. Thus, the choice of either fully or partially taking over a cross-border target stands as an interesting challenge not only for academics but also for practitioners (Chen and Hennart, 2004; Dang and Henry, 2016).

A significant topic in research on strategy is its alignment with other business decisions (Olson et al., 2005). Liang et al. (2009) studied entry mode preferences in a sample of U.S. acquiring firms classified on the basis of the Miles and Snow (1978) strategy typology, one of the most frequently used typologies. It classifies firms into originally four categories, viz. prospectors, defenders, analyzers, and reactors. Of these categories, prospectors and defenders are two extreme strategies in which the former focuses on innovation and the latter focuses on cost efficiency. Analyzers represent a hybrid strategy somewhere between prospectors and defenders. All three strategies are so-called "viable" or sustainable for a firm to prosper and survive in the long run. A fourth strategy, which is non-viable, comprises reactors. Reactor firms follow an unclear, inconsistent, and reactive strategy based rather on external pressure. Liang et al. (2009) combined the Miles and Snow strategy typology with entry mode decisions, but their study can be further enhanced in two ways. First, they divided their sample into prospectors and defenders only. Hence, the preference of analyzers for entry mode decisions remains unstudied. Since the majority of firms in any industry or region tend to follow an analyzer strategy (Hambrick, 2003), it is vital to fill this research gap, not only for academia but also for practitioners. Second, Liang et.al (2009) operationalized the binary dependent variable of entry mode preference at a broader level such that full-ownership entry mode included both greenfield investments and full acquisitions; partial-ownership entry mode included both joint ventures and partial acquisitions. Hence, the effect of the Miles and Snow strategy typology specifically for *acquisition* entry mode requires further validation. We argue that the relationship between firm strategies and the choice of partial versus full acquisitions represents an important but neglected area of research.

In order to fill this gap in the literature, our study is aimed at providing a fine-grained understanding of the effect of the Miles and Snow strategy typology on the choice of partial versus full acquisitions by considering all so-called viable strategies. We apply transaction cost

economics, strategic capability perspective and strategic cognition perspective to formulate three hypotheses. Our study is based on the data of cross-border acquisitions undertaken by Japanese companies.

Our results, based on logistic regression analysis, indicate that prospectors prefer full acquisitions while defenders prefer partial acquisitions. Our findings, furthermore, show that analyzers prefer full acquisitions. These results are consistent in four robustness checks. The contribution of this study to the international management literature is threefold. First, this study extends the more general findings of Liang et al. (2009) that prospectors prefer full-ownership while defenders prefer shared-ownership entry modes in specific cases of cross border acquisitions. Second, our study includes all firms, also the ones with an analyzer strategy (Hambrick, 2003). Third, this study enriches the literature on strategy by focusing specifically on Japanese cross-border acquisitions, unlike many other studies that focus on the Western context (e.g. Liang, et al. 2009). Japan, being the third largest economy in the world, is an active cross-border acquirer (Pease et al., 2006; Tanganelli and Schaan, 2014). Although there are numerous studies on entry mode preferences of Japanese acquirers (Belderbos, 2003; Pease et al., 2006; Tanganelli and Schaan, 2014; Wang and Schaan, 2008), the authors are not aware of any study on the relationship between the Miles and Snow strategy typology and the choice of partial versus full acquisitions. Our study; therefore, enriches the literature on Japan as we investigate Japanese cross-border acquirers' behavior.

In terms of practical implications, this study provides guidelines to managers involved in cross-border acquisitions. Managers are cautioned to consider the nature of partner opportunism and firm capabilities.

The study proceeds as follows: The next section presents a literature review, followed by hypothesis development. Next, the research design and methods are discussed, followed by data and descriptive statistics section. The results and robustness checks are presented and the study ends with a discussion and conclusion.

2 Literature Review

2.1 Relevant theory and perspectives

In this study, we apply the transaction cost economics theory (TCE), strategic capability perspective and strategic cognition perspective. Formulated by Williamson (1975, 1979, 1985, 1992, 1996), TCE has emerged as a prominent theory in the literature (Zhao et al., 2004) to explain how firms choose strategies to either internalize (performing tasks internally) or externalize (favoring market-based) transactions. TCE is the most commonly used theory for explaining entry mode choices (Teece, 1986, Hennart, 1988, 1991, Kogut and Singh 1988; Zhao et al., 2004). Anderson and Gatignon (1986) were the first scholars to systematically link TCE with entry mode choices. Focusing on the Miles and Snow strategy typology and entry mode choices taken together, Liang et al. (2009) are of the view that prospectors are more likely

to get affected by partner opportunism compared to defenders. This shows the importance of applying TCE to the present study.

From the strategic capability perspective, the existence of firms is a bundle of tangible and intangible capabilities (Amit and Schoemaker, 1993; Madhok, 1997). Using this approach, scholars focus on capabilities, rather than on products, to explain how firms achieve competitive advantages (Teece, 1982; Teece, Pisano, & Shuen, 1990). For example, Spillan et al. (2018) showed that both management and technology capabilities were important drivers of performance. The strategic capability perspective has been frequently employed in the context of entry mode. Focusing on the expansion of Japanese firms in China, Lin (2000) showed that organization capability was significantly related to the choice of market entry mode. In his conceptual paper, Madhok (1997) argued that firms with specialized technology were more likely to prefer equity-based entry modes over contractual entry modes, unlike firms with more mature technology. Focusing on Chinese firms, Zheng and Qu (2015) found that technology-based capabilities and brands increased firm performance, irrespective of whether or not the firm conducted cross-border investments. Closely related to this study, Liang et al. (2009) argued that prospectors and defenders possessed different types of capabilities resulting in opposite preferences with respect to shared versus full-ownership entry mode. Hence, the strategic capability perspective is deemed relevant to this study.

Strategic cognition perspective relates to how managers filter and interpret strategic issues (Bundy et al., 2013). Seminal work on cognition and strategy by Porac et al. (1989) motivated numerous scholars to focus on the link between managerial cognition and strategic/organizational outcomes (Kaplan, 2011). Norheim-Hansen (2015) found that managerial cognition, with respect to higher environmental reputation of potential alliance partners, increased trust and attractiveness. Similarly, Khan (2018) showed that the cognitive role of managers (during the strategy formulation and implementation phase) had a significant impact on organizational performance and reputation. There is evidence that Miles and Snow strategy typology aligns well with the idea of strategic cognition. For example, Kabanoff and Brown (2008) categorized a sample of Australian firms based on top managers' strategic cognition. Their categorization of strategic cognition was derived from twenty-one themes that were highly emphasized by top managers in annual reports. A similar link between strategic cognition and the Miles and Snow strategy typology was found by Liang et al. (2009). Based on the findings in these studies, the application of strategic cognition perspective to our study is justified.

2.2 Miles and Snow strategy typology

The Miles and Snow strategy typology is one of the most often used categorizations of business strategies. This typology is based on the idea that firms need to make critical decisions in three major domains, viz. entrepreneurial, engineering, and administrative. Many firms are within the boundaries between product/market development and production/cost efficiency. Two

extreme solutions – "pure" strategies – are prospectors and defenders. Prospectors keep innovation and production development as their top priorities, and focus on being ahead of competitors to dictate their prices. It can be said that their economic sustainability lies in upgrading their technology and products. Defenders, on the other hand, do not prioritize innovation. Instead, they focus on cost saving and production efficiency, and strive to remain competitive by keeping their prices low. A third approach, somewhere between the two extremes (prospectors and defenders) is the adoption of a hybrid strategy where concentration is placed both on innovation and cost efficiency. Such firms are classified as analyzers. In order to remain economically sustainable, firms can choose any of these strategies. According to Miles and Snow (1978), these three strategies are equally sound, and we therefore call them "viable".

Nevertheless, it must be mentioned that a fourth strategy exists; this is the so-called reactor strategy. Such a strategy is adopted by firms that do not have any clear focus on both innovation and production efficiency. Rather, it is environmental pressure that leads such firms to "react" to competitors. This strategy is considered non-viable and therefore, firms that adopt such a reactor strategy are excluded from this study.

Although the original classification of the Miles and Snow strategy typology comprises four groups, studies on entry modes usually compare only the two extreme strategies, namely prospectors and defenders (Hambrick, 1982, 1983; Jennings and Seaman, 1994; Liang et al. 2009; Rogers et al., 1999; Simons, 1987; Thomas and Ramaswamy, 1996; Thomas et al., 1991). There are also a few studies which include the category of analyzers; however, to the best of our knowledge, they are not about cross-border acquisitions but on other topics such as firm performance, etc. (Boyd and Salamin, 2001; Hambrick, 1981; Oltra and Luisa Flor, 2010; Sarac et al., 2014; Shortell and Zajac, 1990). For example, Shortell and Zajac (1990) compared three viable strategies across 12 entrepreneurial and three administrative measures. With the exception of one administrative measure, they found support for their hypotheses that innovation-related activities were mostly undertaken by prospectors, followed by analyzers, with defenders coming last. They also found that the difference between prospectors and analyzers was often not statistically significant. In other words, both prospectors and analyzers differed from defenders. However, there tended to be no difference between prospectors and analyzers. Another study found that the effect of operations strategy on performance was moderated by business strategy (Oltra and Luisa Flor, 2010). More specifically, their results showed that the effect of operations strategy on performance was significant only for defenders, but not for prospectors or analyzers. In another study, Sarac et al. (2014) concluded that the interactive effect of strategy together with the firm size was the best predictor of the firm performance. Boyd and Salamin (2001) studied how strategy influenced employee compensation plans. They found that prospector firms paid the highest salary while defender strategy firms the lowest.

2.3 Partial versus full acquisitions

Upon concluding cross-border acquisitions, firms have to decide whether they want to operate alone in the host market, or jointly with local partners. Early literature compared different entry modes, e.g. joint ventures, acquisitions or greenfield investments (Hennart, 1991; Hennart & Park, 1993). As acquisitions are becoming more common nowadays (Danakol et al., 2017), recent studies tend to focus solely on acquisitions by differentiating between partial and full acquisitions (Dang and Henry, 2016).

Transaction cost economics is the most commonly used theoretical lens to explain the choice of partial versus full acquisitions (Ahammad et al., 2017; Arslan and Wang, 2015; Demirbag et al., 2007). According to Chen and Hennart (2004), industry R&D intensity of the acquirer is positively associated with full acquisition, whereas that of targets is negatively associated with full acquisition. They hypothesize the former relationship on the tenets of TCE that screening costs for the acquirer from high R&D industry are lower, and the latter relationship on the argument that partial acquisitions allow a smooth transfer of tacit/technological knowledge. In regard to the target size, Ahammed et al. (2017) argue that acquirers incur higher cost for separating desired assets from non-desired assets in larger targets. For this reason, acquirers prefer partial acquisitions for larger targets. Supporting this argument, studies report a negative relationship between target size and full acquisition (Ahammed et al., 2017; Demirbag et al., 2007).

TCE is also applied in studies on host market economies. As the economic growth of host market increases its attractiveness (Hennart and Larimo, 1998; Meyer and Peng, 2005), acquirers should prefer full-ownership entry modes for such markets (Morschett et al., 2010). In line with this argument, Lu, Karpova, and Fiore (2011) report a positive association between host country economic growth and full acquisition. Nevertheless, some studies have found a negative relationship (Ahammad et al., 2017; Morschett et al., 2010).

Other studies focus on institutional and cultural distances in regard to cross-border acquisitions (Contractor et al., 2014; Demirbag et al., 2007; Oguji and Owusu, 2017). According to most of these studies, partial acquisitions are a preferred choice of bidders when there is considerable cultural distance to their targets (Ahammad et al., 2017; Contractor et al., 2014, Chari and Chang, 2009; Demirbag et al., 2007; Lahiri et al., 2014; Liang et al., 2009) or a considerable formal institutional distance (Chari and Chang, 2009; Demirbag et al., 2007; Lahiri et al., 2014).

2.4 Strategy and entry mode

Strategy and entry mode decisions have been studied in a wide range of contexts (Pehrsson, 2008). Focusing on born global firms, Efrat and Shoham (2013) find that the choice of high or low entry modes depends on the interaction between strategic orientation and environmental factors. More specifically, their study showed that most born global firms followed a prospector strategy, and they viewed economic stability and market size as opportunities by preferring high-commitment entry modes. Focusing on the context of emerging market multinationals, Hilb (2015) postulates that different levels of institutional voids in the home country affect the

strategic cognition of a firm vis-à-vis market entry behavior. Based on a sample of Swedish manufacturing firms, Pehrsson (2008) showed the relevance of two strategies, viz. business relatedness and corporate international experience in this regard. He found that both these variables were positively associated with the choice of full control entry modes. Using a sample of Chinese auto component multinationals, Hertenstein et al. (2017) showed that the firms' strategic orientation with respect to *commitment to foreign MNC business networks* affected various internationalization decisions, including their entry mode choice.

According to Riviezzo (2013), two aspects in strategic orientation, namely market orientation and entrepreneurial orientation, play a critical part in managing the acquired firm. Similarly, Haleblian et al. (2012) show that strategic orientation affects the timing of firms in a merger wave. A firm with a greater focus on technology and marketing tends to enter early into a merger wave. Fehre et al. (2016) examine performance effects and strategic consistency in M&A and find that firms which follow consistency in their acquisition direction (horizontal, vertical, related, conglomerate) enjoy higher performance.

Close to our study, a similar approach is taken by Liang et al. (2009) in their investigation of the impact of acquirer business strategy on different entry modes. Using the Miles and Snow strategy typology, they show that prospectors prefer full-ownership entry modes, whereas defenders prefer shared-ownership entry modes. This link between firm strategy and entry mode is an area which has tremendous value for both academia and practitioners. Hence, this study advances our understanding of firm strategies by considering all three viable strategies according to the Miles and Snow strategy typology.

3 Hypothesis development

Following prior literature and focusing on three viable strategies, we compared the acquisition behavior of prospectors, analyzers, and defenders. Figure 1 refers to the continuum of viable strategies.

Figure 1 about here

3.1 Prospectors versus defenders

We compared prospectors and defenders with regard to their choice of full versus shared-ownership entry mode. We based our arguments on the transaction cost economics (TCE), on the strategic capability perspective and on the strategic cognition perspective. According to TCE, the firm which possesses more proprietary knowledge (such as knowledge on changing technology) is more susceptible to partner opportunism (Calvet, 1983). Since prospectors focus more on innovation (Hambrick, 2003; Miles and Snow, 1978), they avoid shared-ownership but prefer full-ownership. Defenders, in contrast, compete on price sensitive industries. Therefore, they would rather invest partially in cross-border targets. In line with this argument,

defenders lower their transaction costs by taking advantage of their local partners' experience and knowledge.

From the strategic capability perspective, firms are a function of tangible and intangible capabilities (Amit and Schoemaker, 1993; Madhok, 1997). Since prospectors are associated with a higher level of tacit knowledge, decentralized structures, and more knowledgeable people (Rogers et al., 1999; Shortell and Zajac, 1990), they prefer an entry mode which offers them greater control and higher flexibility to ease cross-functional integration (DeSarbo et al., 2005). Defender firms have a lower knowledge base. Hence, from the strategic capability perspective, we expect prospectors to choose full-ownership mode and defenders to choose a shared-ownership mode when acquiring cross-border targets.

We lay out similar arguments in regard to the strategic cognition perspective. Prospector firms are typically led by young individuals (Thomas et al., 1991). These individuals exhibit lower risk-avoidance (Finkelstein and Hambrick, 1996). Since full acquisitions embrace higher risk exposure compared to partial acquisitions (Herrmann and Datta, 2002), the choice of full-ownership matches better with the profile of young and less risk-avoiding individuals at prospector firms. Hence we expect prospectors to prefer full acquisitions and defenders to prefer partial acquisitions.

> *H 1. Prospectors prefer full acquisitions whereas defenders prefer partial acquisitions.*

3.2 Analyzers versus defenders

Analyzers are conceptualized as firms having a balanced strategy somewhere in the middle between the two extremes, viz. prospectors and defenders (Miles and Snow, 1978; Doty et al., 1993; Fiss, 2011; Pittino & Visintin, 2009).

The theoretical positioning of analyzers somewhere in the middle (as seen in Fig. 1) makes it easier to compare them with the other two strategies (Shortell and Zajac, 1990). Based on TCE, we can expect that analyzers are more prone to partner opportunism than defenders since analyzers focus more on innovation than defenders (Hambrick, 2003).

Similarly, compared to defenders, analyzers are associated with a higher level of tacit knowledge, decentralized structures and a more complex knowledge base embedded in people. Therefore, from the strategic cognition perspective, analyzers are predicted to desire more control than defenders (Shortell and Zajac, 1990).

Moreover, as mentioned earlier, risk-avoidance of prospectors is lower than that of defenders from the strategic cognition perspective. Since analyzers opt for a balanced strategy between two extremes (Ingram et al., 2016), analyzers are predicted to have lower risk avoidance as compared to defenders. Hence, all three theories predict analyzers to prefer full acquisitions and defenders to prefer partial acquisitions. Our second hypothesis is thus as follows:

H 2. Analyzers prefer full acquisitions whereas defenders prefer partial acquisitions.

3.3 Prospectors versus analyzers

As stated above, analyzers are positioned somewhere in the middle between the two extreme strategies of prospectors and defenders (Blackmore and Nesbitt, 2013; Pittino & Visintin, 2009). Hence, analyzers are relatively less focused on innovation compared to prospectors (Hambrick, 2003). Therefore, applying TCE, we can expect that prospectors are more prone to partner opportunism than analyzers. Similarly, prospectors are associated with a higher level of tacit knowledge, decentralized structures and complex knowledge embedded in people than analyzers (Shortell and Zajac, 1990). Therefore, from a strategic cognition perspective, prospectors are predicted to aim for more control than analyzers.

In the same way, we extend the argument of risk avoidance in the comparison of prospectors and analyzers. From strategic cognition perspective i.e. prospectors are predicted to have a lower risk-avoidance than analyzers. While prospectors and analyzers both prefer full acquisitions compared to defenders (H1 and H2), we expect prospectors to show a higher degree of preference for full acquisitions compared to analyzers. Therefore, we put forward the following hypothesis:

H 3. Even if both prospectors and analyzers prefer full acquisitions, prospectors have a higher tendency to do so.

4 Research design and method

4.1 Econometric model

The dependent variable represents a dichotomous choice between full and partial acquisitions; therefore, logistic regression analysis is used in this research (Arslan and Wang, 2015; Liang et al., 2009). The following model is used:

$$
\begin{aligned}
Prob\,(full\ acquisitions = 1) \\
&= \beta_0 + \beta_1(\text{strategy}) + \beta_2(institutional\ distance) \\
&+ \beta_3(\text{host country size}) + \beta_4(\text{cultural distance}) \\
&+ \beta_5(\text{acquirer experience}) + \beta_6(\text{acquirer size}) + \beta_7(\text{target size}) \\
&+ \beta_8(\text{deal relatedness}) + \beta_9(\text{developing host market}) \\
&+ \beta_{10}(industry\ dummies) + \beta_{11}(year\ dummies) + \varepsilon
\end{aligned}
$$

In Model 1, we include only control variables. In Model 2a and Model 2b, we enter our focus variable, *strategy,* with the reference category of *defenders* and *analyzers* respectively.

4.2 Dependent variable

The dependent variable takes the value of one for full acquisition, and zero for partial acquisition. A full acquisition means that acquirers have 100% ownership in the cross-border target after the deal. Likewise, ownership of any percentage with less than 100% represents a partial acquisition. This operationalization is based on previous literature (Lahiri et al., 2014; Liang et al., 2009; Mariotti et al., 2014). Our focus provides the choice for cross-border bidders to operate *alone* in the host market or together *with a local partner*. Some studies focus on the aspect of *control* while investigating partial acquisitions (Desarbo et al., 2005). Hence, these scholars focus on whether acquirers want to become sole decision-makers in the target or merely participate with a minority share with limited influence over the target's management decisions. In this scenario, a classification of less than 50% and greater than 50% as a cutoff is worth exploring. However, the scope of this study is limited to aspects of resource-sharing.

4.3 Independent variables

Strategy is operationalized as a categorical variable. The methodology of strategy classification used in this paper closely resembles that of Anwar & Hasnu (2016, 2017). For this, initially four proxy variables are created based on publicly available data provided in financial statements. The first variable is marketing focus, related to the entrepreneurial dimension of a firm. The second variable is production inefficiency, followed by growth focus and the fourth is capital intensity ratio.

Conceptually, prospectors invest more resources in marketing than defenders. Hence, prospectors are expected to have higher scores than defenders on the first variable. Production inefficiency is measured as the ratio of cost of goods sold to sales. Hence, a high value reflects inefficiency. Conceptually, product and production standardization are the strengths of defenders. Hence, defenders are more cost efficient than prospectors and should have a lower score. Likewise, for the second variable, prospectors are expected to have higher scores than defenders. The third measure of growth is measured by a compound sales growth rate. Conceptually, growth is the focus of prospectors. Hence, prospectors should have higher scores than defenders. The fourth variable, capital intensity ratio, is the ratio of net property, plant and equipment over total assets. This variable, focusing on the engineering dimension of the Miles and Snow strategy typology, conceptually states that technological efficiency is higher for defenders. Hence, for this last variable, prospectors should have lower scores than defenders. In summary, prospectors are expected to have higher scores for the first three variables but a lower score for the last variable, in contrast to defenders (Table 1 gives the variables and formulas). These variables are based on a five year average ending one year prior to the acquisition (Bentley et al., 2013; Ittner et al., 1997).

Table 1 is inserted here

We classified firms into *three* groups within viable strategies in line with the literature (cf. Anwar & Hasnu, 2016, 2017). In order to assign a discrete strategy score to each acquirer, four

measures were ranked by quintiles from 0 to 4 (Anwar and Hasnu, 2016, 2017; Bentley et al., 2013; Evans & Green, 2000). The first three measures (marketing focus, production inefficiency, growth focus) were ranked in ascending order where higher scores corresponded to prospectors. In contrast, the last measure of capital intensity ratio was ranked in descending order since lower scores corresponded to prospectors. For each acquirer, the individual quintile measures were summed up. Hence, we assigned a discrete strategy score from 0 to 16 to each acquirer. In order to classify each firm into a specific group of a viable strategy, the following ranking was used: defenders (0-5), analyzers (6-10), and prospectors (11-16).

4.4 Control variables

Our control variables were classified into three categories, namely firm, industry, and country. At the firm level, size for both acquirer and target were operationalized as natural logarithm of total assets (Chiu et al., 2018; Huang et al., 2014; Park et al., 2011; Pattnaik and Lee, 2014; Reuer and Ragozzino, 2012). Acquirer experience was measured by the number of acquisitions in the target country prior to the deal (Arslan and Wang, 2015; Duarte and Garcia-Canal, 2002, 2004). At the industry level, deal relatedness variable was included as a dummy variable receiving a value of 1 if acquirer and target were from the same industry sub-group, and 0 otherwise (Dang and Henry, 2016, Santalo and Becerra, 2008). We also added target industry dummy variables to control for industry fixed effects. At the country level, we controlled for cultural distance, host country size, institutional distance, and if the target was located in a developing country (Chikhouni et al., 2017). Following Arslan and Wang (2015), Demirbag et al. (2007), Lahiri et al. (2014), Liang et al. (2009), we measured cultural distance between acquirer and target country by Kogut and Singh's (1988) composite index, based on the four dimensions of Hofstede (1980) national cultural difference index. The host country size variable was operationalized as the natural logarithm of the host country GDP based on a five year average, with data ending a year before the acquisition (Liang et al., 2009). Following Lahiri et al. (2014) and Contractor et al. (2014), we operationalized the institutional distance variable as the difference in country risk based on World Bank's six governance indicators (Kauffman et al., 1999) following the formula of Morosini et al. (1998). Since the sample was drawn from multiple years, the year dummies were also included in the regression analysis. Variables, their definitions, previous applications and data sources are provided in Table 2.

Table 2 is inserted here

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5 Data and Descriptive Statistics

5.1 Data

We retrieved M&A transactions from the Bloomberg database for the period 2012-2017 by focusing on strategically driven cross-border acquisitions initiated by Japanese firms. Acquirers and targets were restricted to publicly traded firms. As we explicitly focused on strategy, deals from the finance industry (by hedge funds or pension funds) were taken out. We considered such transactions only when the acquirer did not have any ownership in the target

firm before the deal. For each deal, strategy measures were obtained for the bidder firm for a period of five years ending a year before the acquisition. World Bank data were used for institutional distance and host country size variable. GDP figures for Taiwan were obtained from an online database ("Taiwan GDP", 2018). The data for cultural distance were obtained from Hofstede et al. (2010). We categorized the target firms coming from developing and developed countries based on the United Nations classification criteria (Eisend et al., 2017). Bloomberg "industry classification" and "industry sub-group classification" were used for industry dummies and the deal relatedness variable respectively. As a result, 105 deals were shortlisted for this study.

In regard to strategy variables for the main results, we divided our initial 105 deals directly into three viable strategies, namely prospectors, analyzers, and defenders. However, as Anwar and Hasnu (2016, 2017) recommend classifying (potential) reactors as well, we considered this alternative operationalization of strategy variable for a robustness check. For this, we calculated the discrete scores for each acquirer at four points in time. Three scores were calculated for short-to-medium term strategic orientation and one score was calculated for an overall long-term strategic orientation. The overall long-term strategic orientation was calculated from the strategy measures based on seven years' data ending one year prior to the acquisition. The short-to-medium term strategic orientation was calculated for 1, 2 and 3 years before the acquisition - each based on preceding five years average data. Hence, each company received four viable strategy classifications, viz. three for short-to-medium term and one for long-term. Conceptually, reactors represent inconsistency in their strategy. Hence, if a firm followed any strategy at least three times out of four, it was classified as per its respective viable strategy. Otherwise, it was classified as a reactor.

5.2 Descriptive Statistics

Acquirer firms having a prospector, analyzer or defender strategy had 15, 73, and 17 representations respectively. This shows that our sample had roughly a similar representation of prospectors and defenders, whereas analyzers dominated the sample. This sample distribution was similar to those of other previous studies, thus showing that it represented the population well (Jennings et al. 2003; Mcdaniel and Kolari, 1987; Rajaratnam and Chonko, 1995; Smith et al., 1989). Our sample of 105 deals was comparable in its size to similar studies such as that of Arslan and Wang (2015) in which logistic regression was used. A comprehensive break down of strategies divided into partial and full acquisitions is provided in Table 3.

As far as the demography of targets is concerned, most of our sample comprised American firms, represented by 31 cases. The targets from South Korea and Australia were represented by 11 and 9 firms, respectively. Table 4 gives a comprehensive break down into countries of the target firms.

Table 3 is inserted here

Table 4 is inserted here

Descriptive statistics are provided in Table 5. The mean and median for most of the predictor variables were statistically different between the sub-samples of partial and full acquisitions. The correlation matrix is provided in Table 6. Additionally, we performed multicollinearity checks from the VIF figures. All VIF figures were below the stricter cutoff of 5. Hence, multicollinearity was not an issue in our analysis.

Table 5 is inserted here

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6 Results

The results of our regression analysis are provided in Table 7. Model 1 was run only with the control variables. The chi-square and pseudo R-square for the base model were 84.803 and 74.54% respectively. This pseudo R-square was greater than those of most of the studies with similar econometric model specifications (Ahammad et al., 2017; Chikhouni et al., 2017; Lahiri et al., 2014; Chari and Chang, 2009; Demirbag et al., 2007). *Host country size*, *acquirer experience*, and *acquirer size* variables were significant. Since the dependent variable was coded 1 for full acquisition and 0 for partial acquisition, significant positive coefficient of *acquirer size* variable suggested that the acquirer size was positively associated with the choice of full acquisitions.

In Model 2a, the coefficient of prospectors ($\beta = 6.990$, $p < 0.05$) suggested that prospectors preferred full acquisitions. As the references group was defenders, we had evidence that defenders preferred partial acquisitions. Hence, HI was supported. In the same model, the coefficient of analyzers ($\beta = 6.563$, $p < 0.05$) suggested that analyzers too preferred full acquisitions. H2 was therefore supported. In Model 2b, the non-significance of prospectors ($\beta = 0.426$, *n.s.*) showed that H3 was not supported.

For a better understanding, we depict the predicted probabilities of full acquisitions for all three strategies in Figure 2. The probability of full acquisitions for defenders was close to zero. In contrast, the probability of full acquisitions for the other two strategies was significantly higher than that of defenders (H1, H2). Although the predicted probability of prospectors was higher

than that of analyzers, the non-significance of prospectors (Model 2b, $\beta = 0.426$, *n.s.*) showed that the difference between their predicted probabilities was not statistically significant (H3).

Table 7 is inserted here

Figure 2 about here
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7 Robustness Checks

For robustness check, we considered the alternative operationalization of strategy variable, control variables, and dependent variable. We ran four models for robustness check as shown in Table 8. All the models were based on the alternative operationalization of strategy variable such that viable strategies were assigned after taking out reactors from the sample. In the first two models, we additionally focused on alternative operationalization of control variables. In Model 1, we based the operationalization of *acquirer experience* variable, in accordance to previous studies, as the number of years since the first investment in that country (Arslan and Wang, 2015; Chen and Hennart, 2004; Chen, 2008; Chikhouni et al., 2017; Mariotti et al., 2014). In Model 2, in addition to acquirer experience, we amended the operationalization of cultural distance as well, where we measured cultural distance as the absolute distance based on a value of uncertainty avoidance (Contractor et al., 2014).

In Model 3 and Model 4, we further considered the operationalization of other types for our dependent variable. In our primary analysis, the dependent variable was operationalized such that any acquirer's ownership percentage that was less than 100% was classified as a partial acquisition. Two further possible scenarios can be considered for a robustness check. First, the lower bound of zero percent can be increased. This is because deals with only having a small percentage of ownership transfer may be, in fact, a *portfolio* investment rather than a *strategic* investment (Demirbag et al., 2007). Second, the upper bound of partial acquisitions can be reduced. According to Dang and Henry (2016), in some other countries, regulations by the stock exchange may delist firms if the ownership of the largest shareholder exceeds a certain cutoff. They provide cutoff values depending on the country from 80% to 95%. If we focus on a target country where the cut-off ownership value is 90%, a deal with 92% ownership would be classified already as a full acquisition. For our robustness check, therefore, we considered two pairs of lower and upper bounds to our initial results. We grouped our firms in a 5% to 95% range, and the other in a 10% to 90% range (Demirbag et al., 2007). We report the results from the 5% to 95% range in Model 3 and the 10% to 90% range in Model 4 for the robustness check.

Our findings showed that the results from the robustness check were the same as our main results. For brevity, we report only the models with defenders as the reference category. The

predicted probabilities of full acquisitions for the three strategies in the robustness check are presented in Figure 3.

Table 8 is inserted here

Figure 3 about here
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8 Discussion

We investigated three viable strategies according to the Miles and Snow strategy typology to see if they mattered in the choice between partial and full acquisitions when making cross border deals. We hypothesized that prospectors and analyzers preferred full acquisitions, whereas defenders preferred partial acquisitions. Furthermore, we argued that, theoretically, prospectors had a higher tendency to fully acquire cross-border targets compared to analyzers. These arguments were substantiated, and H1 and H2 received support. Hence, the findings of Liang et al. (2009) that prospectors prefer full-ownership entry modes whereas defenders prefer shared-ownership entry modes hold true in specific cases of acquisition as well. Additionally, we also found that analyzers, too, preferred full acquisitions.

On the tenets of three different theories, we found evidence that strategy did matter for firms taking over cross-border targets. Consistent with findings in prior studies, our results also showed evidence of similarity between prospectors and analyzers (H3). In fact, there was no evidence of heterogeneity between these two groups, and H3 was hence not supported. This result was aligned with many prior studies which reported identical behavior of these two strategies (Laugen et al., 2006; Oltra and Luisa Flor, 2010; Zajac and Shortell, 1990). These empirical findings are consistent with the view that prospectors and analyzers are similar to each other in terms of technological focus with the exception that prospectors are first movers unlike analyzers which are rapid followers (Malone et al., 2008; Miles and Snow, 1978; Pleshko, 2007; Shortell and Zajac, 1990; Troilo et al., 2014). According to this view, analyzers follow both prospectors and defenders such that they operate as prospectors on a few business segments and as defenders on others (Volberda, 1998). In line with this view, our study suggests that analyzers possess sufficient proprietary knowledge, tacit skills, and a low risk avoidance, thus making them act essentially like prospectors. This means that although analyzers are defined as a hybrid group between prospectors and defenders, in practice they exhibit characteristics which are quite similar to those of prospectors, at least in the context of acquisition behavior.

This study provides useful implications for managers who are involved in acquisitions. Managers should consider the nature of assets and capabilities that need to get transferred to a target firm. Since defenders do not focus much on innovation (Hambrick, 2003), they usually transfer standard machinery to their target through partial acquisitions. Prospectors and

analyzers tend to transfer more complex technologies and knowledge embedded in people and, therefore, are more likely to conduct full acquisitions to have control over the target (Shortell and Zajac, 1990; Troilo et al., 2014). While acquirers have to make sure that targets do not misuse transferred resources or capabilities (Graebner, 2009), managers should also realize that integration in a full acquisition is a complicated act (Herrmann and Datta, 2002). Hence, acquirers with high risk-avoidance may prefer partial acquisitions (Herrmann and Datta, 2002). In summary, acquirers should carefully evaluate the transaction in regard to TCE, strategic capability and cognition perspective concerning partner opportunism and their own firm capabilities.

Despite some useful findings, this study is not without its limitations. The acquiring firms were solely from Japan. Hence, as uncertainty avoidance for Japan is high, the generalizability of our findings in regard to uncertainty might be questionable. Second, the sample comprised only publicly traded firms. As in other studies, many firms that had conducted acquisitions of smaller, not listed firms could not be included into the sample. Third, the strategies examined in this study were classified based on archival data. Future research should consider triangulating strategies using alternative methods. Despite such limitations, we feel this study makes a meaningful contribution to the literature. It is our hope that it stimulates future studies to investigate strategy-acquisition relationships with a bigger sample size and with acquirers from other countries, using also other variables.

9 Conclusion

This study extends previous literature by offering a more fine-grained understanding of the relationship between the Miles and Snow strategy typology and the choice of partial versus full acquisitions. Based on the perspectives of transaction cost economics, strategic capability and strategic cognition, we hypothesized that prospectors and analyzers preferred full acquisitions unlike defenders who preferred partial acquisitions.

We confirmed these ideas on cross-border acquisitions by Japanese acquirers. However, we did not find any support that analyzers differed from prospectors in their behavior; both had a high likelihood to fully acquire cross-border targets.

The study has useful implications for practitioners. Upon entering a foreign market, practitioners are advised to consider carefully the aspects of partner opportunism and firm capabilities.

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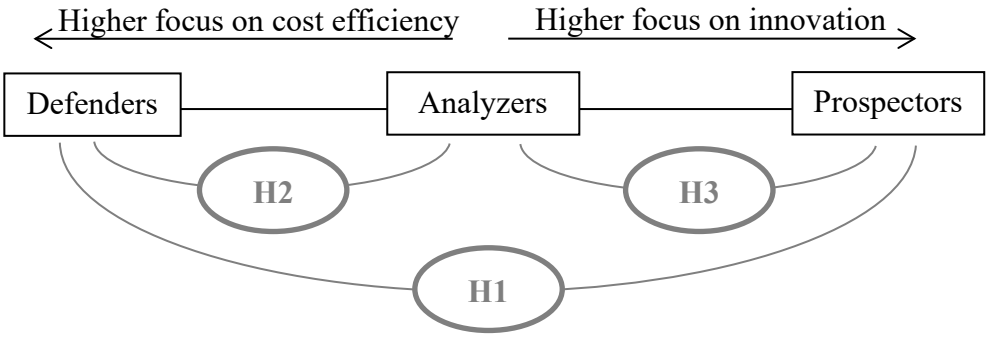
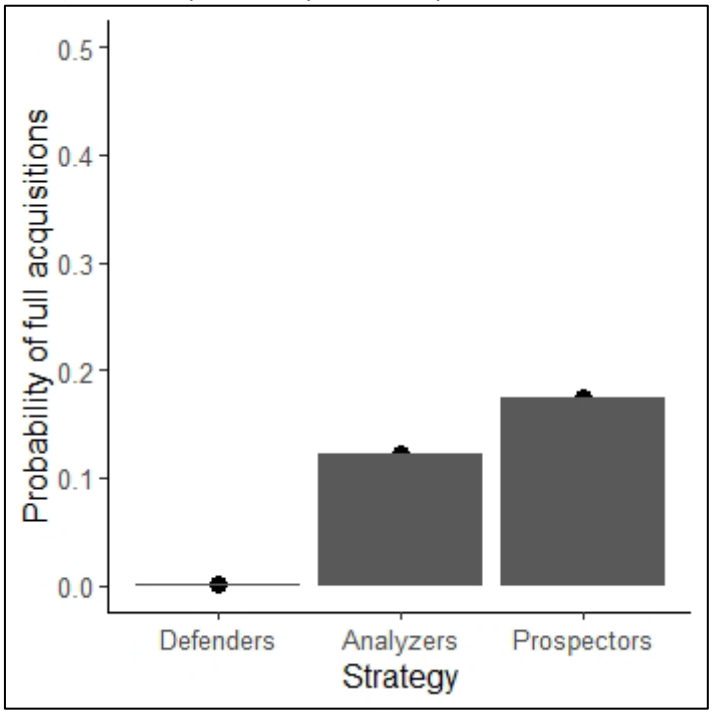
Figure 1 (The continuum of viable strategies as per the Miles and Snow typology)



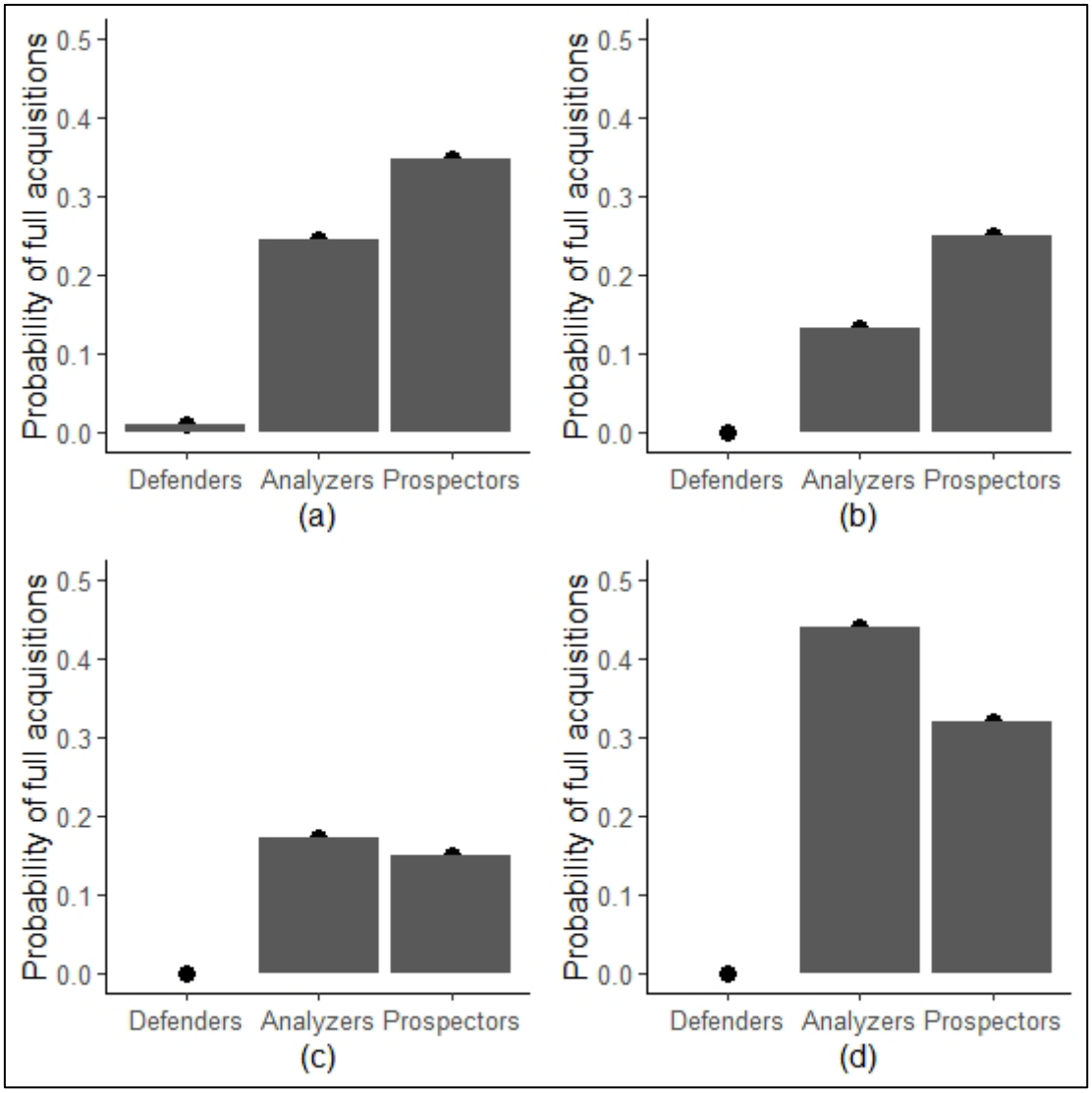
Focus of TCE: Proprietary knowledge increases towards the right side of strategy continuum.
Focus of strategic capability perspective: Tacit knowledge, decentralized structures and flexibility increase towards the right side of strategy continuum.
Focus of strategic cognition perspective: Risk-avoidance increases towards the left side of strategy continuum.

Figure 2 (Predicted probability of full acquisitions for each strategy)



Note: Based on specifications of Model 2 (Table 7)

Figure 3 (Predicted probability of full acquisitions for robustness check)



Note: Figure 3 (a) to (d) are based on specifications of Model 1 to Model 4 respectively from Table 8.

Table 1 (Measures used for strategy classification)

Measures	*Formulae*	*Sources*
Marketing focus	$\frac{\text{selling, administration and general expenses}}{\text{Sales}}$	Anwar and Hasnu (2016, 2017); Bentley et al.(2013); Hambrick (1983); Thomas and Ramaswamy (1996)
Production inefficiency	$\frac{\text{cost of goods sold}}{\text{sales}}$	Anwar and Hasnu (2016, 2017); Lin et al. (2014); Thomas and Ramaswamy (1996)
Growth focus	$(\frac{\text{ending value}}{\text{beginning value}})^{(\frac{1}{\#\text{ of years}})} - 1$	Anwar and Hasnu (2016, 2017); Slater and Zwirlein (1996)
Capital intensity ratio	$\frac{\text{net property, plant and equipment}}{\text{total assets}}$	Anwar and Hasnu (2016, 2017); Bentley et al. (2013)

Table 2 (Summary of variables)

Variables	*Definitions*	*Applications in previous research settings*	*Data Sources*
Full acquisitions	Dummy variable which takes the value of one if acquirer's ownership of the target firm is equal to 100% (full acquisitions) and takes the value of zero for any percentage less than 100% (partial acquisitions).	Lahiri et al. (2014); Liang et al. (2009); Mariotti et al. (2014)	Bloomberg data
Strategy	Prospectors, analyzers, and defenders as per Miles and Snow typology	Anwar and Hasnu (2016, 2017)	Bloomberg data
Institutional distance	Difference in country risk based on World Bank's six governance indicators (Kauffman, Kraay and Zoido-Lobaton, 1999) following the formula of Morosini et al. (1998).	Lahiri et al. (2014); Contractor et al. (2014)	World Bank Data
Host country size	Natural logarithm of host country GDP based on five year average data ending one year before the deal.	Liang et al. (2009)	World Bank Data
Cultural distance	Target country firms culture. Kogut and Singh (1988) "composite" index based on four dimensions of the Hofstede (1980) index.	Arslan and Wang (2015); Demirbag et al. (2007); Lahiri et al. (2014); Liang et al. (2009)	Hofstede, Hofstede, & Minkov (2010)
Acquirer experience	Number of acquisitions preceding the current deal.	Arslan and Wang (2015); Duarte and Garcia-Canal, 2002, 2004	Bloomberg data
Acquirer/target size	Natural logarithm of the total assets.	Chiu et al. (2018); Huang et al. (2014); Park et al. (2011); Pattnaik and Lee (2014); Reuer and Ragozzino (2012)	Bloomberg data
Deal relatedness	A dummy variable which takes the value of one if acquirer and target are from same industry sub-group, and takes the value of zero otherwise.	Dang and Henry (2016); Santalo and Becerra (2008)	Bloomberg data
Developing host country	A dummy variables which takes the value of one if target is from a developing country, and zero otherwise.	Eisend et al. (2017)	United Nations classification criteria

Table 3 (Distribution of acquirer's strategy across partial and full deals)

	Partial deals		*Full deals*		*Complete sample*	
	Number	*Percentage (by row)*	*Number*	*Percentage (by row)*	*Number*	*Percentage (by column)*
Prospectors	9	60.00%	6	40.00%	15	14.29%
Analyzers	39	53.42%	34	46.58%	73	69.52%
Defenders	13	76.47%	4	23.53%	17	16.19%
Total	61	58.10%	44	41.90%	105	100.00%

Table 4 (Countries of origin of target firms)

Countries	*Number of deals for each country*	*Total Cases by row*	*Percentage*
United States	31	31	29.52%
South Korea	11	11	10.48%
Australia	9	9	8.57%
Singapore	6	6	5.71%
Britain, Malaysia, Vietnam	5	15	14.29%
Thailand	4	4	3.81%
France, India, Italy, Norway, Taiwan	3	15	14.29%
Canada, Germany, Hong Kong	2	6	5.71%
Belgium, China, Indonesia, Ireland, Israel, Netherlands, Sweden, Switzerland	1	8	7.62%

Note: Table 4 reports countries of origin of target companies acquired by Japanese acquirers for our sample of 105 deals.

Table 5 (Descriptive Statistics)

	Complete sample		*Partial acquisitions*		*Full acquisitions*	
	Mean	*Median*	*Mean*	*Median*	*Mean*	*Median*
(1) Institutional distance	3.85	0.81	5.83	2.87	1.10***	0.68***
(2) Host country size	28.27	27.99	27.53	27.69	29.28***	30.33***
(3) Culture distance	3.13	2.74	3.33	2.74	2.87**	2.74
(4) Acquirer Experience	4.70	1.00	3.34	1.00	6.59	2.50***
(5) Acquirer size	22.93	23.00	22.64	22.58	23.33**	23.25*
(6) Target size	19.08	18.82	19.01	18.71	19.18	19.25
(7) Deal relatedness	0.20	0.00	0.16	0.00	0.25	0.00
(8) Developing host country	0.40	0.00	0.64	1.00	0.07***	0.00***

Note: ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, based on T-tests for the differences in mean values, and Wilcoxon tests for the differences in median values between partial and full deals.

Table 6 (Correlation Matrix)

	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*
(1) Full acquisitions								
(2) Institutional distance	-0.41***							
(3) Host Country Size	0.54***	-0.47***						
(4) Cultural distance	-0.19*	0.18*	-0.47***					
(5) Acquirer experience	0.12	-0.13	0.36***	-0.10				
(6) Acquirer Size	0.19*	-0.14	0.05	0.09	0.25**			
(7) Target Size	0.06	-0.11	0.01	0.02	0.31***	0.44***		
(8) Related deal	0.11	0.06	-0.01	0.07	-0.09	-0.24**	-0.03	
(9) Developing host country	-0.58***	0.61***	-0.69***	0.26***	-0.21**	-0.21**	-0.10	0.03

Note: Definitions and related information about all variables are presented in Table 2. ***, **, and * under the coefficients represent statistical significance at 1%, 5% and 10% levels respectively.

Table 7 (Main results)

	Model 1	*Model 2a*	*Model 2b*
Strategy			
Prospectors		6.990 **	0.426
		(2.845)	(1.109)
Analyzers		6.563 **	
		(2.733)	
Defenders			-6.563 **
			(2.733)
Institutional distance	-0.351	-0.568	-0.568
	(0.258)	(0.350)	(0.350)
Host Country Size	1.334 ***	2.398 ***	2.398 ***
	(0.486)	(0.791)	(0.791)
Cultural distance	0.219	0.267	0.267
	(0.289)	(0.309)	(0.309)
Acquirer experience	-0.080 **	-0.121 ***	-0.121 ***
	(0.035)	(0.047)	(0.047)
Acquirer Size	1.214 **	2.084 ***	2.084 ***
	(0.488)	(0.752)	(0.752)
Target Size	-0.359	-0.508	-0.508
	(0.302)	(0.356)	(0.356)
Related deal	1.975	3.453 **	3.453 **
	(1.220)	(1.631)	(1.631)
Developing host country	-1.349	0.168	0.168
	(1.599)	(2.005)	(2.005)
(Intercept)	-2.881	-14.996 **	-8.433 **
	(2.755)	(6.448)	(4.228)
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes
Pseudo R-square	74.54%	79.42%	79.42%
Model chi-square	84.803	93.699	93.699

Note: Binominal dependent variable is full acquisitions (partial acquisitions=0, full acquisitions=1). In Model 1, we include only the control variables. In Model 2a and Model 2b, we enter our focus variable, strategy with the reference category of *defenders* and *analyzers* respectively. Standard errors are reported in parentheses. ***, **, and * represent statistical significance at 1%, 5%, and 10% level respectively.

Table 8 (Robustness Checks)

	Model 1	*Model 2*	*Model 3*	*Model 4*
Strategy				
Analyzers	3.553*	5.708**	7.132 **	7.461 **
	(1.948)	(2.434)	(3.395)	(3.332)
Prospectors	4.054*	6.483**	6.970 **	6.951 **
	(2.329)	(2.964)	(3.513)	(3.458)
Institutional distance	-0.376	-0.404**	-0.710	-0.780
	(0.254)	(0.200)	(0.488)	(0.661)
Host Country Size	1.600***	2.294***	2.717 **	2.581 **
	(0.615)	(0.844)	(1.070)	(1.007)
Cultural distance	0.194	0.115**	0.212	0.464
	(0.279)	(0.048)	(0.336)	(0.375)
Acquirer experience	-0.076	-0.143	-0.152 **	-0.146 **
	(0.091)	(0.117)	(0.060)	(0.058)
Acquirer Size	1.148**	1.840***	2.486 **	2.489 **
	(0.475)	(0.711)	(1.096)	(1.077)
Target Size	-0.533	-0.990*	-0.610	-0.625
	(0.327)	(0.519)	(0.470)	(0.455)
Related deal	2.896**	5.315**	4.387 *	5.362 **
	(1.353)	(2.196)	(2.273)	(2.507)
Developing host country	0.047	-1.658	0.223	0.416
	(1.630)	(2.278)	(2.628)	(2.720)
(Intercept)	-8.187*	-10.053*	-15.878 *	-10.947
	(4.544)	(6.095)	(8.717)	(9.491)
Industry dummies	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes
Pseudo R-square	74.74%	81.50%	82.53%	83.69%
Model chi-square	79.451	91.204	91.516	82.992

Note: Dependent variable is full acquisitions (partial acquisitions=0, full acquisitions=1). All models in the robustness check are built upon main results (Model 2a, Table 6) after taking outs acquirers with reactor strategy from the sample. In Model 1, *acquirer experience* variable is operationalized as "the number of years since the first investment in target country". In Model 2, in addition to *acquirer experience* variable, we changed measurement of *cultural distance* variable as "absolute difference in uncertainty avoidance index". In Model 3 and Model 4, the dependent variable of acquisitions (partial acquisitions=0, full acquisitions=1) is operationalized using lower bound and upper bound of 5% and 95%, and 10% and 90% respectively. Standard errors are reported in parentheses. ***, **, and * represent statistical significance at 1%, 5%, and 10% level respectively.