Japanese cross-border M&A: the choice of partial versus full acquisitions

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(Degree)
博士（経営学）

(Date of Degree)
2021-03-25

(Date of Publication)
2023-03-25

(Resource Type)
doctoral thesis

(Report Number)
甲第7994号

(URL)
https://hdl.handle.net/20.500.14094/D1007994

DOCTORAL DISSERTATION

Japanese cross-border M&A: the choice of partial versus full acquisitions

日本のクロスボーダーM&A：部分的買収と完全買収の選択

Date: January 14th, 2021

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Acknowledgment

I thank Allah for His countless blessings that have enabled me to achieve this milestone. Among other blessings that God has bestowed upon me, one is my dear father who envisioned me with a Ph.D. degree many years ago. My Ph.D. supervisor for the first two years Dr. Ralf Bebenroth has been another tremendous blessing who instilled the love of research in me. I am also grateful to Dr. Naoya Mori for being my supervisor in the absence of Dr. Ralf Bebenroth. Additionally, I thank my doctoral thesis committee members, Dr. Jittima Tongurai and Dr. Takaaki Hoda, for their valuable feedback. My friends and family, especially my mother, siblings, wife, and two children, brought immense colors and meaning to my life that was undoubtedly essential in keeping me motivated as a Ph.D. student. I also gratefully acknowledge the financial scholarship that Ministry of Education, Culture, Sports, Science and Technology (MEXT), Government of Japan awarded me.

I also acknowledge valuable experiences with reputed journals such as the *Journal for Global Business Advancement*, *International Journal of Management Practice*, and *Organizations and Markets in Emerging Economies* where chapters of this thesis are published/forthcoming. Similarly, I thank reviewers associated with the *Conference on Interdisciplinary Business and Economics Research (CIBER)*, organized by the Society of Interdisciplinary Business Research (SIBR) in July 2019 in Osaka, for both allowing me to present a chapter of this thesis and for conferring it the Best Paper Award.

Abstract

Focusing on Japanese cross-border mergers and acquisitions, this thesis examines the factors that affect firms' decision to acquirer their cross-border targets either partially or fully. The thesis is comprised of four studies. The first study examines whether the size and the strategy of firms (vis-à-vis consistent strategy versus flexible strategy) affect the acquisition behavior. Results show that large Japanese firms prefer full acquisitions whereas small Japanese firms prefer partial acquisitions. Also, small-sized consistent strategy firms are more likely to choose full acquisitions over partial acquisitions than small-sized flexible strategy firms. The second study compares the acquisition behavior of Japanese firms based on Miles and Snow typology—that is, prospectors (innovation-oriented firms), defenders (cost efficiency-oriented firms) and analyzers (firms that focus on both innovation and cost efficiency). Results show that Japanese prospectors and analyzers are more likely to choose full acquisitions over partial acquisitions than Japanese defenders. The third study compares the acquisitions behavior of emerging market multinationals (EMMS) and developed market multinationals (DMMs) for their Japanese cross-border targets. Results show that EMMs are more likely to prefer partial acquisitions over full acquisitions than DMMs, particularly if acquirer size is small. The last study investigates whether the choice of partial versus full acquisitions is affected by disaggregated formal institutional distance (FID) variables measured by Worldwide Governance Indicators—a country-level governance data of six dimensions. Results show that acquisition mode choice is affected by only three dimensions.

Keywords: Partial versus full acquisitions; consistent strategy; flexible strategy; Miles and Snow typology; prospectors; defenders; analyzers; emerging market multinationals; developed market multinationals; formal institutional distance; Worldwide Governance Indicators

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Chapter 1

Introduction and Outline

1.1. Research background and motivation

Acquisitions have become common economic phenomena in the recent years, representing up to 80% of total foreign direct investments globally (Danakol et al., 2017). In a narrow sense, an acquisition involves at least two entities—an acquirer and a target. Firms pursue acquisitions to access new technologies, augment their capabilities, access new markets, and reduce cost through economies of scale. An acquisition can be divided into a domestic or a cross-border deal. An acquisition is classified as cross-border if acquirer and target are located in different countries. Cross-border acquisitions have received greater attention in academia because of their distinct features. Cross-border acquisitions are marked with added complexity in the post-acquisition integration than domestic acquisitions because of cultural and regulatory differences among countries. Stated differently, managing a cross-border target is more challenging than a domestic one.

Previous research has focused on factors that affect firms' acquisition mode choice in cross-border acquisitions, i.e. the choice of partial versus full acquisitions. In a full acquisition, acquirer takes complete ownership of its target, whereas in a partial acquisition, acquirer participates to a lower degree (less than 100%) in its target. Both acquisitions modes have their distinct benefits. Full acquisitions allow acquirers to gain control over their target firms. However, acquirers also have to embrace greater decision-making responsibility and greater risk. In contrast, partial acquisitions enable acquirers to receive the support of local partners. However,

acquirers are entitled to profit only in the proportion of their ownership in target firms. Therefore, whether a firm should acquire its cross-border target partially or fully represents a thought-provoking research topic. Still, this topic has received relatively little attention in regard to Japan. This is surprising because Japan represents the third largest global economy and a major country in cross-border acquisitions. For this reason, the author felt motivated to conduct a PhD on cross-border acquisitions research connected to Japan, examining the antecedents of partial or full acquisitions.

1.2. An overview of acquisition mode literature

Scholars have approached the choice of partial versus full acquisitions from a number of perspectives, e.g., transaction cost theory, institutional theory, and resource-based view of the firm. Particularly, the application of transaction cost economics and institutional theory dominates the literature.

Numerous studies have employed transaction cost economics to explain the choice of partial versus full acquisitions (Ahammad et al., 2017; Arslan & Wang, 2015; Chen & Hennart, 2004; Demirbag et al., 2007; Liang et al., 2009). Based on the tenets of transaction cost economics, Chen & Hennart (2004) presented a hostage theory regarding why foreign investors prefer partial acquisitions over full acquisition. They argued that the cost of searching an appropriate target and then, the cost of enforcing the contract is reduced by partial acquisitions. More specifically, they argued that partial acquisitions allow acquirers to screen their targets before they buy their targets completely, and at a later stage, allow them to enforce the contracts. Review of studies drawing on transaction cost economics shows that common variables under this scheme are industry R&D intensity, industry relatedness, target size, and acquirer experience.

Similarly, numerous studies have applied institutional theory (Contractor et al., 2014; Chari & Chang, 2009; Demirbag et al. 2007; Lahiri et al., 2014; Oguji & Owusu, 2017). These studies focus on how cultural and institutional differences between acquirer and target country affect the choice of partial versus full acquisitions. Application of this theory for the choice of partial versus full acquisitions assumes that cultural and governance differences between acquirer and target countries lead to a greater likelihood of partial acquisitions (Chari & Chang, 2009; Demirbag et al. 2007; Lahiri et al., 2014).

In terms of data collection, most studies focused on a specific set of countries at the acquirer or target side. For example, at acquirer side, studies have focused on firms from United States (Liang et al., 2009, Chari & Chang, 2009), Japan (Chen, 2008; Chen & Hennart, 2004), Britain (Ahammad et al., 2017), Finland (Oguji & Owusu, 2017), Nordic countries (Arslan & Wang, 2015), Spain (Lopes Duarte and Garcia-Canal, 2002, 2004), and East and Southeast Asia (Dang & Henry, 2016). Similarly, at target side, studies have focused on firms from United States (Chen, 2008; Chen & Hennart, 2004), Italy (Mariotti et al., 2013), Turkey (Demirbag et al., 2007), China (Arslan & Wang, 2015; Contractor et al., 2014), India (Contractor et al., 2014), and Africa (Oguji & Owusu, 2017).

1.3. Objectives of this thesis

The aim of this thesis is to enrich the literature on the antecedents of the choice of partial versus full acquisitions for cross-border investments involving Japan. While there are numerous avenues of research on the choice of partial versus full acquisitions, this doctoral thesis will focus on how the acquisition mode choice (partial versus full) is affected by four factors: (1) strategic consistency/flexibility, (2) business strategy based on Miles and Snow typology (viz. defenders, analyzers, and prospectors), (3) country-of-origin (viz. emerging country firms versus

developed country firms), and (4) disaggregated institutional distance variables. I examine each of these factors in a separate study.

The first study examined whether the acquisition mode choice made by Japanese cross-border acquirers is affected by acquirer strategy (consistent versus flexible). The study further investigated the moderating influence of acquirer size on the effect of strategic consistency/flexibility on acquisition mode choice. The study was built on the methodology of Anwar and Hasnu (2017) in assigning a sample of Japanese cross-border acquirers as either consistent strategy firms or flexible strategy firms. Theoretically, the study was built on resource-based view of the firm. The results showed that large Japanese acquirers preferred full acquisitions while small Japanese firms preferred partial acquisitions. Also, for the overall sample, the strategy was not significantly associated with the acquisition mode choice. However, for small acquirers, strategic consistency was positively associated with the likelihood of full acquisitions whereas strategy flexibility was positively associated with that of partial acquisitions.

The second study investigated whether strategies of Japanese cross-border acquirers—based on Miles and Snow typology—impacted their decision to make either partial or full acquisitions. In accordance with Miles and Snow typology, the sample comprised Japanese cross-border acquirers that had three different viable strategies, viz. prospectors, defenders, and analyzers. As a brief note, prospectors are innovation-oriented firms, defenders are cost efficiency-oriented firms, and analyzers represent firms in the middle category focusing on both innovation and cost efficiency. Theoretically, the study was built on transaction cost economics, the strategic capability perspective and the strategic cognition perspective. The results showed that Japanese prospectors and Japanese analyzers preferred full acquisitions, whereas Japanese defenders preferred partial acquisitions. The results further clarified that Japanese prospectors'

and analyzers' acquisition behavior was not significantly different from each other. This study showed that strategies based on Miles and Snow typology impacts acquisition behavior of Japanese cross-border acquirers.

The third study examined whether emerging and developed market multinationals (EMMs and DMMs) differ in their acquisition behavior (vis-à-vis the choice of partial versus full acquisitions) when acquiring Japanese cross-border targets. The study hypothesized that EMMs prefer partial acquisitions whereas DMMs prefer full acquisitions due to—what can be named as—the country-of-origin effect. Additionally, the study hypothesized that this country-of-origin effect is more pronounced for small-sized acquirers. The results, based upon 224 Japanese cross-border targets, supported these two hypotheses.

The fourth study highlighted the importance of disaggregating the formal institutional distance variable in investigating the choice of partial versus full acquisitions for Japanese cross-border acquirers. It examined how the acquirer's choice is affected by six dimensions based on the Worldwide Governance Indicators (WGI), viz. (1) voice and accountability, (2) political stability and absence of violence, (3) government effectiveness, (4) regulatory quality, (5) rule of law, and (6) control of corruption. The results show that while an increase in the distance of regulatory quality and that of control of corruption correlate with a higher likelihood of partial acquisitions, an increase in the distance of rule of law is associated with a higher likelihood of full acquisitions. Also, the first three dimensions are not significantly related with the acquisitions mode choice. Moreover, the study also shows econometric model with disaggregated formal institutional distance variables better explain the choice of partial versus acquisitions for Japanese cross-border acquirers than the model with the aggregated formal institutional distance variable.

1.4. Research questions

Focusing on Japanese cross-border acquisitions, the thesis aimed to answer the following research questions:

Research question 1a (RQ1a): How is the size of the Japanese acquiring firm, an important contingent variable in the strategy literature, related to full or partial acquisitions? (Study 1)

Research question 1b (RQ1b): How does a consistent or flexible strategy of Japanese cross-border acquirers impact the choice of full or partial acquisition? (Study 1)

Research question 2a (RQ2a): Do Japanese prospector and defenders differ in their acquisition mode choice? (Study 2)

Research question 2b (RQ2b): Do Japanese analyzers and defenders differ in their acquisition mode choice? (Study 2)

Research question 2c (RQ2c): Do Japanese prospectors and analyzers differ in their acquisition mode choice? (Study 2)

Research question 3a (RQ3a): Do emerging market multinationals (EMMs) and developed market multinationals (DMMs) acquiring cross-border Japanese targets differ in their acquisition mode choice? (Study 3)

Research question 3b (RQ3b): Is the difference in acquisition mode choice of emerging market multinationals (EMMs) and developed market multinationals (DMMs) for cross-border Japanese targets more pronounced for smaller firms? (Study 3)

Research question 4a (RQ4a): Do the disaggregated formal institutional distance variables affect the acquisition mode choice for Japanese cross-border acquirers? (Study 4)

Research question 4b (RQ4b): Do the disaggregated formal institutional distance variables better explain differences in acquisition mode choice (partial versus full acquisitions) than the aggregated formal institutional distance variable, for Japanese cross-border acquirers? (Study 4)

1.5. Theoretical basis

This thesis is built upon several theories and perspectives taken from theoretical literature. The first two research questions are built on the resource-based view of the firm (Study 1). The next three research questions (in Study 2) are drawn on transaction cost economics theory (TCE), strategic capability perspective and strategic cognition perspective. The next two research questions (in Study 3) are drawn on theoretical literature comparing emerging market multinationals (EMMs) with developed market multinationals (DMMs). Note, the arguments in the EMMs versus DMMs literature are mainly built on institutional theory, transaction cost economics, and resource-based view of the firm. Nonetheless, the lengthy EMM literature is now cited an authentic theoretical source on its own. That is, internationalization of EMM is now identified by scholars as a distinct theory. The last two research questions (in Study 4) are built on institutional theory, by taking a disaggregated view of formal institutional distance. Below, I briefly summarize the relevance of these theories for the choice of partial versus full acquisitions.

1.5.1. Resource-based view of the firm (RBV)

Resource-based view of the firm (RBV) suggests that organizations become competitive because of their resources. This theory focuses on assets, capabilities and knowledge (Barney,

1991). Since large acquirers can be assumed to have higher capabilities, more assets, and more experience in foreign markets than small firms, this makes the process of search and negotiation in an acquisition easier for large firms. For example, large firms leverage their resources to establish M&A departments where employees specialize on searching and integrating target firms (Meckl, 2004; Trichterborn et al., 2016; Welch Guerra, 2016; Welch Guerra and Schober, 2018). Therefore, full acquisitions are more manageable for larger firms.

Regarding strategy, flexible strategy firms pursue acquisitions for learning and to gain resources of knowledge from local partners. Hence, applying resource-based view of the firm, one can predict that flexible strategy firms might be more willing to acquire their targets partially to be able to learn from their partners.

1.5.2. Transaction cost economics theory (TCE)

TCE was formulated by Williamson (1975; 1979; 1985; 1992; 1996). It emerged as an influential theory in the international business literature (Zhao et al., 2004) to explain how firms decide between internalizing (performing tasks internally) or externalizing (favoring market-based) transactions. TCE is one of the most common theories for explaining entry mode choices (Teece, 1986, Hennart, 1988, 1991, Kogut and Singh 1988; Zhao et al., 2004). Anderson and Gatignon (1986) are said to be the first scholars to formally link TCE with the entry mode choices. The concept of partner opportunism is among the central idea in TCE (Zhao et al., 2004). In their seminal work focusing on the Miles and Snow strategy typology and on entry mode choices, Liang et al. (2009) contend that prospectors are more likely to get affected by partner opportunism compared to defenders. This shows the importance of applying TCE in the current thesis.

1.5.3. Strategic capability perspective

The strategic capability perspective views firms as a bundle of tangible and intangible capabilities (Amit and Schoemaker, 1993; Madhok, 1997). Based on this perspective, scholars focus on capabilities, rather than on products, to rationalize how firms achieve competitive advantages (Teece, 1982; Teece, Pisano, & Shuen, 1990). The strategic capability perspective has been frequently employed in the context of entry mode. Examining the expansion of Japanese firms in China, Lin (2000) showed that organization capability was significantly related to the choice of market entry mode. Also, 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. Likewise, 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 thesis, 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 thesis.

1.5.4. Strategic cognition perspective

Strategic cognition perspective concerns how managers filter and interpret strategic issues (Bundy et al., 2013). Notably, the seminal work linking cognition and strategy by Porac et al. (1989) motivated numerous scholars to extend this line of research (Kaplan, 2011). For example, Norheim-Hansen (2015) found that managerial cognition increased trust and attractiveness. Khan (2018) showed that the cognitive role of managers had a significant impact on organizational performance and reputation. Literature suggests that Miles and Snow strategy typology aligns well with the idea of strategic cognition. For example, Kabanoff and Brown

(2008) classified 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 examined by Liang et al. (2009). Based on the findings in these studies, the application of strategic cognition perspective to this thesis is justified.

1.5.5. Emerging market multinationals (EMMs) versus developed market multinationals (DMMs)

The literature contrasting EMMs and DMMs is mainly built on institutional theory, transaction cost economics, and resource-based view of the firm. Specifically, the literature contents that DMMs expand to other countries primarily for exploitation of their resources or to access the local market (Gullien & Garcia-Canal, 2009). In contrast, EMMs pursue internationalization for different reasons such as asset-seeking motives, acquiring brand names, knowledge, technology (Child & Rodrigues, 2005; Deng, 2007; Madhok & Keyhani, 2012; Rui & Yip, 2008), or seeking a new market (Ning & Sutherland, 2012). Also, EMMs acquire targets which are easier to manage as they have less experience with foreign market entrances (Xi & Li, 2017). Also on the latecomer perspective, EMMs are more inclined to participate in targets rather than making full acquisitions.

1.5.6. Institutional theory

Institutional theory deals with how organizations react strategically to institutional pressure (Oliver, 1991). The actors follow a logic of social appropriateness (Aguilera and Grogaard, 2019) in order to increase their social legitimacy (Scott, 2013; Tashman et al., 2019). Aguilera & Grogaard (2019: 26) argue that the new institutional economics, based on North's

(1990) work, sheds light on how the behavior of actors is structured by formal institutions (comprising of established rules and laws), and informal institutions (such as norms of behavior). The role of formal institutions in affecting entry mode decisions has been investigated by IB scholars for decades (Brouthers & Hennart, 2007; Kostova et al., 2019). The dominant view in the literature is that the higher the external uncertainty vis-à-vis formal institutions, the higher the likelihood that multinationals prefer shared-ownership entry mode over full-ownership entry mode (Agarwal & Ramaswami, 1992; Brouthers, 2002; Delios & Beamish, 1999; Henisz, 2000; Yiu & Makino, 2002). Study 4 extends this line of investigation by taking a disaggregated view of formal institutional distance.

1.6. Research methodology

All four studies in this thesis are empirical quantitative in nature. In the first, second, and fourth study, I used a sample of cross-border acquisitions undertaken by Japanese acquirers. In the third study whereby the objective is to examine acquisition mode choice made by EMMs and DMMs in Japan, I used a sample of cross-border acquisitions involving Japanese targets (to be consistent with the study objective). The financial and acquisition data was downloaded from Bloomberg terminal. The overall methodology of all four studies is rigorous. However, there are a few minute differences (such as operationalization of variables) based on the journal/conference in which each study was sent for publication/presentation. I extensively raised these minor issues in the robustness check sections and received consistent results.

In Study 1, the sample consisted of 98 cross-border deals undertaken by Japanese firms in the period 2012–2017. These observations could be divided into 41 full and 57 partial acquisitions. In terms of strategy, the data could be segregated into 75 consistent strategy and 23 flexible strategy firms. The data in the second study include 105 cross-border transactions in the

same period (2012–2017) whereby prospector, analyzer and defender were 15, 73, and 17 respectively. The sample represented 61 partial and 44 full acquisitions. In the third study, the final sample of 224 deals included 84 full and 140 partial acquisitions in the period 2001–2018. Classified alternatively, the deals represented 94 acquirers from emerging country and 130 acquirers from developed country. The last study had 151 deals represented by 81 partial and 70 full acquisitions in the period 2010–2017.

1.7. Academic acknowledgement

In order to make this thesis theoretically rich and methodologically robust, I sent three studies to international peer-reviewed journals for publication and one to an international conference for presentation. Study 1, which I presented as *dainironbun*, has been accepted for publication in "Journal of Global Business Advancement" (Ahmed & Bebenroth, forthcoming). Study 2 has been already published in "International Journal of Management Practice" (Ahmed & Bebenroth, 2020). Study 3 has been published in "Organizations and Markets in Emerging Economies" (Ahmed & Bebenroth, 2019a). Study 4 was presented at Conference on Interdisciplinary Business and Economics Research (CIBER) in Osaka, on July 4–5, 2019, organized by The Society of Interdisciplinary Business Research (SIBR), where it received the Best Paper Award (Ahmed & Bebenroth, 2019b).

1.8. Structure of the remaining thesis

Chapter 2, Chapter 3, Chapter 4 and Chapter 5 represent Study 1, Study 2, Study 3 and Study 4 respectively. Section 2.1 presents the abstract and section 2.2 presents the introduction of Study 1. Section 2.3 deals with the literature review and the hypothesis development. Section 2.4 provides the research design and the measurement of variables. Section 2.5 explains the data and the descriptive statistics. Section 2.6 and section 2.7 describe the results and the robustness

checks respectively. Section 2.8 and section 2.9 represent the discussion and the conclusion of Study 1 respectively.

Chapter 3 represents Study 2 whereby section 3.1 and section 3.2 present the abstract and the introduction respectively. Section 3.3 concerns the literature review, and section 3.4 deals with the hypothesis development. Section 3.5 explains the research design and the method, followed by section 3.6 in which the data and the descriptive statistics are presented. Section 3.7 and section 3.7 deal with the results and the robustness checks respectively. Section 3.8 and section 3.9 represent the discussion and the conclusion of Study 2 respectively.

Chapter 4 provides Study 3 of this thesis. Section 4.1 presents the abstract, followed by section 4.2 which deals with the introduction of the study. Section 4.3 deals with the literature review and the hypothesis development. Section 4.4 explains the research design, measurement of variables, data and descriptive statistics. Section 4.5 deals with the results and the robustness check. Section 4.6 presents a discussion, followed by section 4.7 in which the managerial implications, limitations, and future research directions are discussed. Section 4.8 presents the conclusion.

Chapter 5 presents study 4 whereby section 5.1 and section 5.2 provide the abstract and the introduction of the study respectively. Section 5.3 explains the literature review and the hypothesis development respectively. Section 5.4 deals with the methodology, followed by section 5.5 which concerns the results and the robustness checks. Section 5.6 presents a discussion, followed by section 5.7 which provides the theoretical implications, future research directions, and limitations of the study. Section 5.8 discusses the managerial relevance of the study.

Chapter 6 presents an overall conclusion of this thesis. Section 6.1 answers the research questions in the light of the results. Section 6.2 presents implications of this thesis for theory. Section 6.3 provides a general conclusion of the thesis.

Chapter 2

Study 1: The effect of strategic consistency and flexibility on the choice of partial or full acquisitions

2.1. Abstract

This paper is aimed at relating *size* and *strategy* of cross-border acquirers to their acquisition behavior by investigating the choices made by acquirers to take over their targets *partially* or *fully*. We divided a sample of Japanese cross-border acquirers into firms with consistent or flexible strategies. Applying a resource-based view of the firm, we hypothesized and empirically validated that there was an interaction effect between the size and strategy of the acquirer vis-à-vis its decision to attain full or partial acquisition. Our findings indicated that large acquirers preferred full acquisitions while small firms preferred partial acquisitions. Besides size, business strategy mattered too. For small acquirers that subscribed to a consistent strategy, full acquisitions were preferable, while those with a flexible strategy chose partial acquisitions. Nevertheless, the effect of strategy on acquisition behavior was weak for large acquirers.

Keywords: Strategy; strategic consistency; strategic flexibility; partial acquisitions; full acquisitions; M&A; acquirer size; Japan.

Note: An earlier version of this study entitled “Do company size and strategy matter in the choice of partial or full acquisitions?” has been accepted for publication in *Journal of Global Business Advancement* (Ahmed & Bebenroth, forthcoming).

2.2. Introduction

Acquisitions have become a common entry mode worldwide, representing up to 80% of total foreign direct investments globally (Danakol et al., 2017). As a result, this phenomenon is extensively researched, covering a wide range of aspects in finance (Evripidou and Melanthiou, 2013; Zollo and Meier, 2008), human resources (Aguilera and Dencker, 2004; Bebenroth, 2015), and marketing (Homburg and Bucerius, 2005; Lee et al., 2011). An important decision that firms have to make upon completing an acquisition deal is the degree of investment in the acquired firm, i.e. whether they should wholly own their investment or to participate with a lower impact by buying a smaller number of its shares. For this reason, we see a growing number of studies on how the choice of full or partial acquisition is made (Arslan and Wang, 2015; Dang and Henry, 2009).

Business strategies influence a wide range of business decisions (Dyer and Song, 1997; Yarbrough et al., 2011; Olson et al., 2018), including the choice of entry behavior into foreign markets (Liang et al., 2009). Liang et al. (2009) used Miles and Snow (1978) strategies' typology and linked it to the choice of shared versus full ownership entry modes. They divided a sample of U.S. acquiring firms according to the strategies employed, either as prospectors (firms in search of product and market opportunities) or defenders (firms with relatively stable product and market domains). They found the business strategy of prospectors to be significantly associated with full-ownership entry modes, whereas that of defenders was associated with a preference for shared-ownership entry modes. Apart from these typologies, strategy scholars classify firms as those having a consistent strategy or those who adopt a flexible one. In this regard, consistent strategy firms tend to focus their efforts on upholding their current strategies, while flexible strategy firms align their strategy with dynamic environments (Parnell, 2005).

Applying concepts of the resource-based view (RBV) of the firm, this study investigates acquisition behavior in relation to the acquiring firm's size and strategy, and also whether consistency or flexibility of company strategy plays an important role in the decision for full or partial acquisition. We adopt the classification of Anwar and Hasnu (2017) in assigning a sample of Japanese cross-border acquirers as either consistent strategy firms or flexible strategy firms. This study puts forward the following research questions. First, how is the size of the acquiring firm, an important contingent variable in the strategy literature, related to full or partial acquisition? Second, how does a consistent or flexible strategy impact the choice of full or partial acquisition? To the best of our knowledge, the link between strategic consistency/flexibility of acquirer and the choice of partial versus full target acquisition has yet to be investigated. There have been; however, several studies on the entry mode of Japanese cross-border acquisitions (Belderbos, 2003; Pease et al., 2006; Tanganelli and Schaan, 2014; Wang and Schaan, 2008). A reason for the popularity of such studies is that Japan is the third largest global economy, and an active cross-border acquirer (Pease et al., 2006; Tanganelli and Schaan, 2014). However, the authors could not find studies on the choice for full or partial acquisition by Japanese acquirers.

Our results showed an interaction effect between company size and strategy with regard to the decision to implement partial or full acquisition. Large acquirers preferred full acquisition, unlike small acquirers that opted for partial acquisition. In regard to strategy, the size of the acquirer played an important contingent role. For the small acquirers, consistent strategy firms preferred full acquisitions while flexible strategy firms preferred partial acquisition. Nevertheless, as firm size increased, the effect of strategy on acquisition behavior weakened.

The study proceeds as follows: In the next section, a literature review is presented, followed by several hypotheses. The research design and measurement issues are then discussed.

Subsequently, the data and descriptive statistics are presented, followed by the results and robustness checks. The study ends with a discussion and a conclusion.

2.3. Literature review and hypothesis development

2.3.1. Acquisition behavior

Entry mode has been a frequent topic of research in the literature on international business since the 1980s (Anderson and Gatignon, 1986; Goodnow, 1985; Hennart, 1987, 1988). However, the studies typically compared various entry modes with one another, e.g. joint ventures, acquisitions, and greenfields (Hennart, 1991; Hennart and Park, 1993; Lopes Duarte and Garcia-Canal, 2002). As acquisitions become a common path for entry mode, a growing number of firms begin making partial acquisitions, acquiring less than 100% of the target equity. Hence, we see an increasing number of comparative studies on full and partial acquisitions (Lopes Duarte and Garcia-Canal, 2004). As a result, academia has come up with multiple answers on why firms might prefer partial acquisitions over full acquisitions. Scholars have mostly used institutional theory, transaction cost economics, and resources-based view of the firm to explain partial acquisitions (Ahammad et al., 2017; Chari and Chang, 2009; Chikhouni et al., 2017; Contractor et al., 2014; Demirbag et al., 2007; Lahiri et al., 2014). In addition, there are a few studies that focus on distinct aspects of partial acquisitions undertaken in developing economies (Arslan and Wang, 2015; Demirbag et al., 2007; Oguji and Owusu, 2017).

A review of the literature shows that not many studies have focused specifically on partial versus full acquisitions, and the results available so far are still not conclusive. One explanation for an increase in popularity of partial acquisitions is the “hostage theory” (Chen and Hennart, 2004). Generally, two major challenges that the foreign investor/acquirer face are:

inspection of the target firm and *enforcement* of the contract. In order to deal with these two issues, the foreign investor would rather participate in the target firm partially to create a so-called hostage effect. A partial acquisition enables the acquirer screen the target before eventually enforcing stipulations in the acquisition contract. Alternatively, Chen (2008) argues that full acquisitions are motivated by capability procurement whereas partial acquisitions are motivated for different strategic reasons. Dang and Henry (2016) showed how corporate governance factors of the target firms influenced the investor's decision to opt for a partial acquisition.

A promising area of investigation, therefore, is the link between the acquirer's strategy and the choice of partial or full acquisition. While Liang et al. (2009) established an association between strategy and broader entry mode outcomes *without* any specific focus on acquisitions, the focus of this study is on the link between strategy-consistent acquirers or flexible acquirers and the choice of full or partial acquisition of cross-border targets.

2.3.2. Acquirer size

Firm size is a common explanatory variable in entry mode studies where it denotes the capability of firms to undertake foreign market entry (Agarwal and Ramaswami, 1992; Cui and Jiang, 2012). According to Agarwal and Ramaswami (1992), strategic control is of vital importance for large firms which aim to attain long-term global competitiveness after entering foreign markets. Although this argument has been put forward in the context of low potential markets, the idea is relevant globally. Agarwal and Ramaswami (1992) argue that in such a scenario, low-equity commitment (e.g. through exports or joint ventures) fails to provide opportunities for large firms to exercise control over target firms. In other words, a sole venture

is more appropriate when control is sought by the firm to align the target firm's activities globally (Bartlett, 1986; Bartlett and Ghoshal, 1986; Doz et al., 1988).

Firm size has been shown to be positively associated with the share ratio sought in foreign investments. Studies on foreign market entries overwhelmingly report a positive association between firm size and internal resources. For example, using a sample of 871 US publicly traded firms, Berry et al. (2010) showed that acquirer size had positive impact on their entry into foreign markets, i.e. large firms showed a higher tendency to enter foreign markets. Studies by Agarwal and Ramaswami (1992) also showed similar trends. Moreover, when such firms prefer equity investments, they tend to choose sole ventures. These findings are consistent with the dominant view that large firms have an edge when entering foreign markets.

Despite a large number of studies showing a positive association of firm size with higher entry mode, empirical findings are not conclusive. In fact, there are studies which show there is no significant relationship between firm size and entry mode (Lahiri et al., 2014; Lee et al., 2008). Some studies even report a negative relationship between firm size and resource commitment. For example, using a sample of 25,359 cross border transactions worldwide in the period 2000-2014, Chikhouni et al. (2017) reported that firm size was negatively correlated with resource commitment. Similarly, based on a sample of 730 cross-border transactions by US firms from 1996-2002, Chari and Chang (2009) reported a negative relationship between acquiring firm size and resource commitment. Their results were consistent across three models based on tobit regression and two models based on ordered logistic regression. Similarly, based on a sample of 315 cross-border investments by Spanish firms, Lopes Duarte and Garcia-Canal (2002) showed that large firms preferred joint ventures over wholly owned subsidiaries. Other

studies have found that firm size is significant only in a few models (Cui and Jiang, 2012; Lopes Duarte and Garcia-Canal, 2004).

Based on a resource-based view of the firm (RBV), we rationalize that resources in organizations enable firms to remain competitive. Specifically, as this theory focuses on assets, capabilities and knowledge, etc. (Barney, 1991), large acquirers can be assumed to have higher capabilities, more assets, and more experience in foreign markets than small firms. This makes the process of search and negotiation easier for large firms. For example, large firms leverage their resources to establish M&A departments where employees specialize on searching and integrating target firms (Meckl, 2004; Trichterborn et al., 2016; Welch Guerra, 2016; Welch Guerra and Schober, 2018). Therefore, full acquisitions are more manageable for larger firms. Hence, premised on the resource-based view of the firm (RBV), we predict that large acquirers tend to acquire cross-border targets fully and, in contrast, smaller firms acquire cross-border targets partially. This leads us to the first hypothesis:

H1: Large acquirers take over cross-border targets fully, while small acquirers participate partially.

2.3.3. Strategy

Both consistent and flexible strategies have distinct benefits. Strategic consistency refers to the stability of a firm's strategy over time (Lamberg et al., 2009). As such, firms with strategic consistency focus on specializing their products and solutions (Parnell, 2005). Consistent strategy firms ensure that a competitive advantage of activities accumulate so as to have better chances of long-term survival (Lamberg et al., 2009), increased learning (Fehre et al., 2016) and

specialization (Moss et al., 2014). Such firms presume that value resides in its applied routines, specialization, its core capabilities, and in stable stakeholder relationships.

Strategic flexibility, on the other hand, means that firms align their strategies with dynamic environments (Sanchez, 1995). Such firms change their strategic focus according to prevailing circumstances. Strategic flexible firms are able to respond quickly to changing market conditions (Hambrick and D'Aveni, 1988). Unlike firms with a consistent strategy, strategically flexible firms may face risks because a change in strategy may not be viewed favorably by investors (Meyer and Rowan, 1977; Pfeffer and Salancik, 1978). Also, firms with a flexible strategy might face difficulty analyzing their new environments correctly, and thus might have difficulty deciding the next course of action (Teece et al., 1997). Nevertheless, flexible strategy firms do enjoy some unique advantages. They are able to adapt their strategy quickly to changing markets or to changes in technology (Reddy, 2006). Flexible strategy firms are, therefore, better able to adjust to dynamic situations, especially in times of crisis (Grewal and Tansuhaj, 2001). Also, such firms are better able to expand in markets with variable demands (Claussen et al., 2018).

While both consistent and flexible strategies have their advantages as well as disadvantages, there is an understanding in the literature that firms should adopt a balance (Lamberg et al., 2009; Parnell, 2005). For example, a firm focusing on a consistent strategy with the aim to increase its specialization should still exercise minimal flexibility as required by a dynamic environment (Lamberg et al., 2009). In other words, organizations inevitably bend towards one side or the other whenever necessary to maintain sustainability in the long run. In fact, an appropriate balance should take the dynamism in the environment into account. In terms of outcome, there is evidence of a positive performance impact for either strategy, namely

consistency (Fehre et al., 2016; Moss et al., 2014) or flexibility (Herhausen et al., 2014; Ouakouak and Ammar, 2015). Nevertheless, some researchers argue that the relationship is complex and that moderating variables should also be considered (Kraatz and Zajac, 2001, Parnell, 2005).

Therefore, besides the size of firms, we also hypothesize that strategic intention matters, i.e. making the decision whether to take over a foreign target fully or partially. Acquirers with a flexible strategy need to be able to interpret challenges in a new environment (Teece et al., 1997). Also, flexible strategy firms pursue acquisitions for learning and to gain resources of knowledge from local partners. Hence, applying resource-based view of the firm, we predict a flexible strategy firm would acquire a suitable target partially. Consistent strategy firms are characterized by high specialization (Parnell, 2005), a learning attitude (Fehre et al., 2016), and competence because of their engagement in repetitive activities (Moss et al., 2014). Hence, in order to save proprietary knowledge from partner opportunism, consistent strategy firms would prefer full acquisition. This leads us to the second hypothesis:

H2: Consistent strategy firms prefer to take over cross-border targets fully, while flexible strategy firms choose to participate partially.

The size of the firm is, undoubtedly, the most frequently studied contingent variable in strategy research (Anwar and Hasnu, 2017; Birkinshaw et al., 2002; Grinyer and Yasai-Ardekani, 1981; Kimberly, 1976; Pleshko et al., 2014). As hypothesized earlier, and based on the resource-based view of the firm (RBV), large firms have more assets and capabilities (Barney, 1991). As such firms grow, they become increasingly structured, formalized and routinized (Blau and Schoenherr, 1971). As a result, large firms are strongly influenced by institutional factors, thus

minimizing the impact of strategy (Anwar and Hasnu, 2017; Thomas and Ramaswamy, 1996). In other words, the impact of strategy on performance and other business decisions is more pronounced for small firms. Hence, we expect that the impact of strategy on acquisition behavior will be weaker for large acquirers. This leads us to the third hypothesis

H3: Compared to small acquirers, the impact of strategy on acquisition behavior is weaker for large acquirers.

2.5. Research design and measurement of variables

2.5.1. Econometric model

Following Arslan and Wang (2015) and Liang et al. (2009), logistic regression analysis was conducted since the dependent variable represented a dichotomous choice. The following logistic model (Model 4) was employed.

Model 4:

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

After running the base model 1 with control variables, the dummy variables of *acquirer size, strategy*, and interaction terms were added sequentially into Model 2, 3 and 4 respectively.

2.5.2. Dependent variable

The dependent variable took the value of one (1) for full acquisition, and zero (0) for partial acquisition. To be more precise, a full acquisition represents 100% ownership of the target shares after the deal, and any percentage less than 100% is categorized as a partial acquisition. This classification is in line with Lahiri et al. (2014), Liang et al. (2009), and Mariotti et al. (2014).

2.5.3. Independent variables

Acquirer size variable was operationalized as a dichotomous variable based on total assets (Chiu et al., 2018; Huang et al., 2014). Classification of firms into large and small categories is in line with prior literature (Bichescu and Raturi, 2015; Bills and Stephens, 2015; Bjerke and Johansson, 2015; Chan and Chen, 1991; Chen and Hambrick, 1995; E. Karim et al., 2013; Kudlyak and Sanchez, 2017; Parenti, 2018; Yang et al., 2014). We took the median as the point of reference for segregating large and small acquirers (Bichescu and Raturi, 2015; E. Karim et al., 2013).

Strategy variable was operationalized as a dummy variable which was assigned the value *1* (one) for firms with consistent strategy, and *0* (zero) for flexible strategy firms. We adopted the methodology of Anwar and Hasnu (2017) for consistent/flexible strategy classification.

2.5.4. Control variables

Following the literature, we added control variables at three levels, viz. firm, industry, and country. At the firm level, total assets were used as the proxy of firm size (Chiu et al., 2018; Huang et al., 2014). Target size was operationalized as a dichotomous variable corresponding to large targets with above-median values (Bichescu and Raturi, 2015; E. Karim et al., 2013). Large

targets were coded 1 (one) and the others (smaller targets) 0 (zero). Acquirer experience was measured by the number of years since the first investment in the target country (Arslan and Wang, 2015; Chen and Hennart, 2004; Chikhouni et al., 2017; Mariotti et al., 2014; Chen, 2008).

Deal relatedness was measured by using a dummy with a value of 1 (one) if acquirer and target were from the same industry sub-group, and 0 (zero) otherwise (Dang and Henry, 2016, Santalo and Becerra, 2008). We also added target industry dummy variables to control for industry fixed effects. As we had cross-border targets, we controlled for cultural distance, host country size, and institutional distance. Following Arslan and Wang (2015), Demirbag et al. (2007), Lahiri et al. (2014), and 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's (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 one 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 the World Bank's six governance indicators (Kauffman et al., 1999). Since the sample was drawn from multiple years, the year dummies were also included in the regression. Definitions, previous applications, and data sources are provided in Table 1.

2.6. Data and descriptive statistics

2.6.1. Data

M&A transaction data were retrieved from the Bloomberg database. We applied the following filters to cross-border deals initiated by Japanese firms: both acquirer and target firms

were restricted to be publicly-listed firms. We deleted all acquirers and targets from the finance industry. The study period was from 2012 to 2017. Also, the acquirer did not have any ownership in the target firm before the deal. For each deal, strategy measures were obtained from the bidder firm for a timespan of seven years ending one year before the acquisition. World Bank data were used for measuring institutional distance and host country size variables. GDP figures for Taiwan were obtained from an online database ("Taiwan GDP", 2018). The Bloomberg "industry classification" and "industry sub-group classification" were used for industry dummies and deal relatedness variables respectively.

In order to classify acquirers as consistent or flexible strategy firms, we referred to the classification of Anwar and Hasnu (2017). Firms were initially classified by Miles and Snow typology (prospectors, analyzers, defenders, and reactors) based on four proxy measures, viz. marketing focus, production inefficiency, growth focus, and capital intensity ratio (Table 2, Miles and Snow typology in Panel A and proxy measures in Panel B).

Each of these four variables was ranked in quintiles (Anwar and Hasnu, 2016, 2017; Bentley et al., 2013; Evans and Green, 2000) from 0 to 4. The first three measures were ranked in ascending order where prospectors were supposed to have high scores. The last measure was ranked in descending order where prospectors were supposed to have low scores. Subsequently, all of these four scores were summed up so that each firm received a discrete score on the continuum from 0 to 16. In order to classify each firm into a specific group within a viable strategy, the following rankings were used in this study: defenders (0-5), analyzers (6-10), and prospectors (11-16). This classification of firms into *three* viable strategic groups was in line with recommendations in the literature (cf. Anwar and Hasnu, 2016, 2017).

Table 1 Summary of variables of Study 1

Variables	Definitions	Prior applications	Data sources
Acquisitions	Dummy variable which takes the value of one for full acquisitions (acquirer's ownership of the target firm is 100%), and zero for partial acquisitions (acquirer's ownership in target is less than 100%).	Lahiri et al. (2014); Liang et al. (2009); Mariotti et al. (2014)	Bloomberg data
Strategy	Dummy variable which takes the value of one if acquirer follows a consistent strategy, and zero for flexible strategy.	Anwar and Hasnu (2017)	Bloomberg data
Acquirer size	A dummy variable which takes the value of one for large (above-median) acquirers measured by total assets, and takes the value of zero otherwise.	E. Karim et al. (2013)	Bloomberg data
Institutional distance	Difference in country risk based on the 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 years average data ending one year before the deal.	Liang et al. (2009)	World Bank Data
Cultural distance	Kogut and Singh (1988) "composite" index for difference in country culture based on four dimensions of Hofstede (1980).	Arslan and Wang (2015); Demirbag et al. (2007); Lahiri et al. (2014); Liang et al. (2009)	Hofstede, Hofstede, & Minkov (2010)
Acquirer experience	Number of years since the first investment in the target country.	Arslan and Wang (2015); Chen and Hennart (2004); Chen (2008); Chikhouni et al. (2017); Mariotti et al. (2014)	Bloomberg data
Target size	Dummy variable which takes the value of one for large (above-median) targets measured by total assets, and takes the value of zero otherwise.	E. Karim et al. (2013)	Bloomberg data
Deal relatedness	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

Table 2 Miles and Snow typology and proxy measures

Panel A: Miles and Snow strategy typology		
Strategies	*Definitions*	*Sources*
Prospectors	Firms in search of product and market opportunities	Anwar and Hasnu (2016, 2017); Bentley et al. (2013); Evans and Green (2000); Jusoh et al. (2008); Liang et al. (2009); Miles and Snow (1978)
Defenders	Firms with relatively stable product and market domains	
Analyzers	Elements of both, prospectors and analyzers	
Reactors	Firms without clear focus on innovation and efficiency	
Panel B: Proxy measures		
Measures	*Formulas*	*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	$\left(\frac{\text{ending value}}{\text{beginning value}}\right)^{\left(\frac{1}{\#\text{ of years}}\right)} - 1$	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)

Afterwards, strategy scores were calculated at four points in time, with three scores for short-to-medium term strategic orientation. The final score was for an overall long-term strategic orientation 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 one, two and three years before the acquisition - each based on preceding five years average data. Hence, each company was assigned four viable strategy classifications. If all four strategies were the same, the firm was classified as a consistent strategy firm. If three out of four strategies were the same, the firm was classified as a flexible strategy firm. Seven firms remained classified as

so-called reactors, and in accordance with the literature, we did not use these firms in our analysis (Anwar and Hasnu, 2017).

2.6.2 Descriptive Statistics

Applying Anwar and Hasnu's (2017) methodology, we classified 98 acquirers as having either a consistent strategy (75) or a flexible strategy (23). According to our classification of 98 deals, 41 involved full acquisitions and 57 involved partial acquisitions. This sample size was comparable to that of Arslan and Wang (2015) where logistic regression was used for the same dependent variable. Comprehensive breakup of acquisition mode and strategy for small and large acquirers is presented in Table 3. Details about countries of origin of target companies are reported in Table 4. The correlation matrix is reported in Table 5. Additionally, multicollinearity was inspected by checking the VIF figures (Aiken and West, 1991). We centered all the continuous variables before using them in the logistic regression, and used R software for data analysis.

2.7. Results and robustness checks

Results are provided in Table 6. Model 1 was run with only control variables. The chi-square and pseudo R-square for the base model were 68.136 and 67.42% respectively. This pseudo R-square was greater than that of most of the studies with similar econometric model specification and variables. Since the dependent variable was coded 1 (one) for full acquisitions and 0 (zero) for partial acquisitions, a significant positive coefficient for *acquirer size* (Model 2, $\beta = 1.451$, $p < 0.10$) means that large firms tended to make full acquisitions and small firms had a tendency to make partial acquisitions. Thus, hypothesis 1 was supported.

Table 3 Breakup of deals and strategy for small and large acquirers

	Small acquirers		*Large acquirers*		*Total*
	Consistent strategy	*Flexible strategy*	*Consistent strategy*	*Flexible strategy*	
Partial acquisitions	22	11	20	4	57
Full acquisitions	14	2	19	6	41
Total	36	13	39	10	98

Table 4 Countries-of-origin of target companies of Study 1

Target countries	*Number of targets*
United States	28
South Korea	11
Australia	9
Britain, Malaysia and Singapore	5
Thailand and Vietnam	4
India, Italy, Norway and Taiwan	3
France, Germany and Hong Kong	2
Belgium, Canada, China, Indonesia, Ireland, Israel, Netherlands, Sweden, Switzerland	1
Total	98

Note: Table 4 reports countries of origin of target companies acquired by Japanese acquirers for our sample. The right column indicates the number of companies acquired in *each* of the countries in the adjacent cell. For example, 4 targets companies were from Thailand and 4 target companies were from Vietnam.

Table 5 Correlation matrix of Study 1

	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*
(1) Acquisition								
(2) Strategy	0.08							
(3) Acquirer Size	0.19 *	0.07						
(4) Institutional distance	-0.41 ***	0.01	-0.12					
(5) Host country size	0.55 ***	0.10	0.19 *	-0.45 ***				
(6) Cultural distance	-0.17 *	-0.18 *	< 0.01	0.16	-0.45 ***			
(7) Acquirer experience	0.27 ***	0.01	0.43 ***	-0.15	0.51 ***	-0.2 **		
(8) Target Size	0.19 *	0.07	0.43 ***	-0.12	0.06	-0.08	0.17 *	
(9) Deal relatedness	0.08	-0.02	-0.30 ***	0.08	-0.04	0.09	< 0.01	-0.05

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

In Model 3, acquirers with a consistent strategy did not show any significant difference in their acquisition behavior. This means that strategic consistency or flexibility was not directly related to the choice of partial or full acquisition across the whole sample. Hence, non-significance of the *strategy* variable (Model 3, $\beta = 0.515$) indicated that hypothesis 2 was not supported.

In order to investigate the impact of size on the strategy of acquirers, an interaction term was created. It was noted that in the presence of interaction terms (*strategy * acquirer size*), the coefficient of one variable (*strategy*) denoted its effect on the dependent variable while the other variable (*acquirer size*) took the value of zero (Aiken and West, 1991; Brambor et al., 2006; Friedrich, 1982). Hence, for small acquirers, strategic consistency is positively associated with

full acquisition, while strategic flexibility, in contrast, is related with partial acquisition (Model 4, β = 9.014, p<0.05). Figure 1 shows the interaction plot of *acquirer size* and *strategy*. Additionally, we found that the coefficient of the interaction term (Model 4, β = -8.957, $p < 0.05$) was smaller in absolute terms and opposite in sign compared to the *strategy* variable (Model 4, β = 9.014, p<0.05). This shows that for large acquirers, the impact of strategy on acquisition behavior was minimal. This finding lent support to hypothesis 3. As depicted in Figure 1, the effect of strategy on acquisition behavior was stronger for small acquirers compared with larger ones.

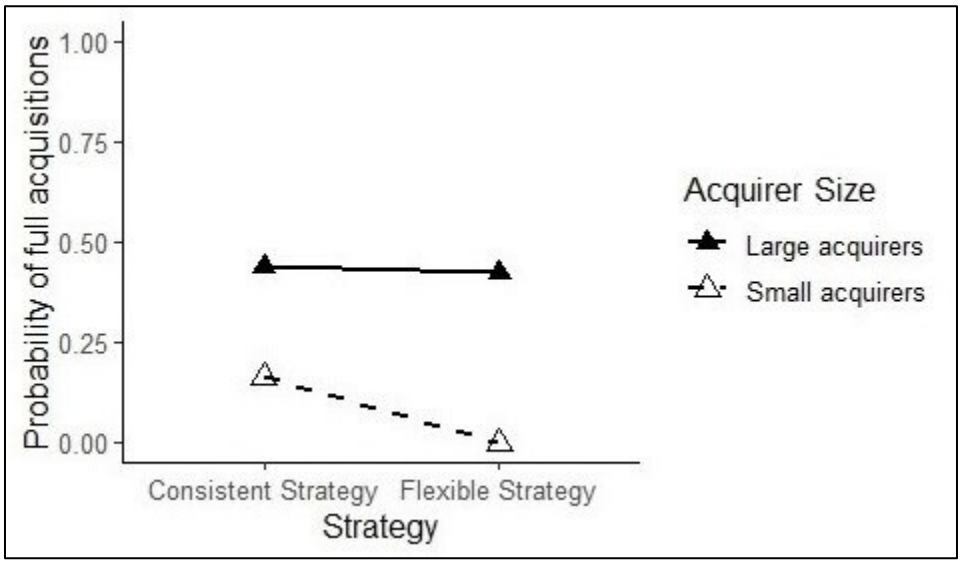
The challenge of using a *single* regression analysis is that results are sensitive and may change if the dependent variable is measured differently. In our case, the dependent variable in the logistic model was operationalized in line with its *conceptual* definition, i.e. if acquirer's ownership of the target firm was *any* percentage less than 100%, the deal was classified as a partial acquisition. So, the lower bound and upper bound of partial acquisition were (0%<partial acquisition<100%). There are two possible scenarios that can be considered for the robustness check. First, the lower bound close to zero percent may be questioned since acquisitions of small percentage do not represent *strategic* investments. Instead, they are merely *portfolio* investments (Demirbag et al., 2007). Since acquiring firms from the finance industry were not included in our sample, the chance for this bias in our analysis was less. However, in order to include the possibility that a strategic investor just undertook a portfolio investment, we decided to increase the lower bound in our robustness check. In this, we referred to the literature having two thresholds of 5% and 10% (Demirbag et al., 2007).

Table 6 Main results of Study 1

	Model 1	*Model 2*	*Model 3*	*Model 4*
Strategy * Acquirer Size				-8.957 **
				(4.183)
Strategy			0.515	9.014 **
			(0.907)	(4.125)
Acquirer Size		1.451 *		10.336 **
		(0.879)		(4.224)
Institutional distance	-0.266 *	-0.268 *	-0.256 *	-0.566 *
	(0.137)	(0.156)	(0.134)	(0.303)
Host country size	1.184 ***	1.223 ***	1.185 ***	1.419 ***
	(0.352)	(0.372)	(0.358)	(0.460)
Cultural distance	0.307	0.232	0.347	0.126
	(0.269)	(0.268)	(0.282)	(0.304)
Acquirer experience	-0.057	-0.105	-0.054	-0.160
	(0.068)	(0.078)	(0.067)	(0.098)
Target Size	1.158	0.590	1.233 *	0.567
	(0.719)	(0.823)	(0.747)	(0.934)
Deal relatedness	0.748	1.302	0.723	1.670
	(0.909)	(1.007)	(0.905)	(1.138)
(Intercept)	-2.630	-3.327 *	-3.155	-13.063 **
	(1.793)	(2.012)	(2.082)	(5.355)
Industry dummies	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes
Pseudo R-square	67.42%	69.41%	67.64%	74.74%
Model chi-square	68.136	71.086	68.460	79.454

Note: Acquisition is the dichotomous dependent variable (partial acquisitions=0, full acquisitions=1). ***, **, and * represent statistical significance at 1%, 5% and 10% levels respectively.

Figure 1 Interaction plot of strategy, acquirer size and acquisition behavior, where partial ownership is any proportion below 100%



Note: Based on specifications of Model 4 (Table 6)

Second, the upper bound of partial acquisitions is also debatable. According to Dang and Henry (2016), in some countries, the stock exchange regulations mandate delisting of firms if ownership of the largest shareholder (acquirer, in our scenario) exceeds a certain cutoff. Dang and Henry (2016) mention cutoff values for certain countries ranging from 80% to 95%. If we focus on a country where cut-off of ownership is executed at 90%, a deal with 92% ownership should be classified as a full acquisition. Therefore, for our robustness check, we considered the threshold of 90% (Demirbag et al., 2007).

In Table 7, we report a robustness model of interaction terms for two scenarios with a lower bound and an upper bound as follows: (1) 5% and 90% in Model 1, and (2) 10% and 90% in Model 2. Moreover, we repeated Model 1 and Model 2 as new models (Model 3 and Model 4 respectively) by adding an additional dummy variable called “developing host country” as recommended by Chikhouni et al. (2017). Note, host countries were distinguished as developed or developing economies based on the United Nations classification criteria (Eisend et al., 2017).

The results from these robustness checks are basically the same (and even stronger) than our main results. Also, the findings are robust to the developing/developed country context and to the operationalization of various types of partial acquisitions, to portfolio investment and stock regulations. The interaction plots are presented in Figure 2 to Figure 5.

2.8. Discussion

This study was focused on two questions. First, we investigated whether small and large firms preferred full or partial acquisitions when making a take-over; second, we wanted to know whether strategic consistency or flexibility in relation to firm sizes mattered when taking over cross-border targets.

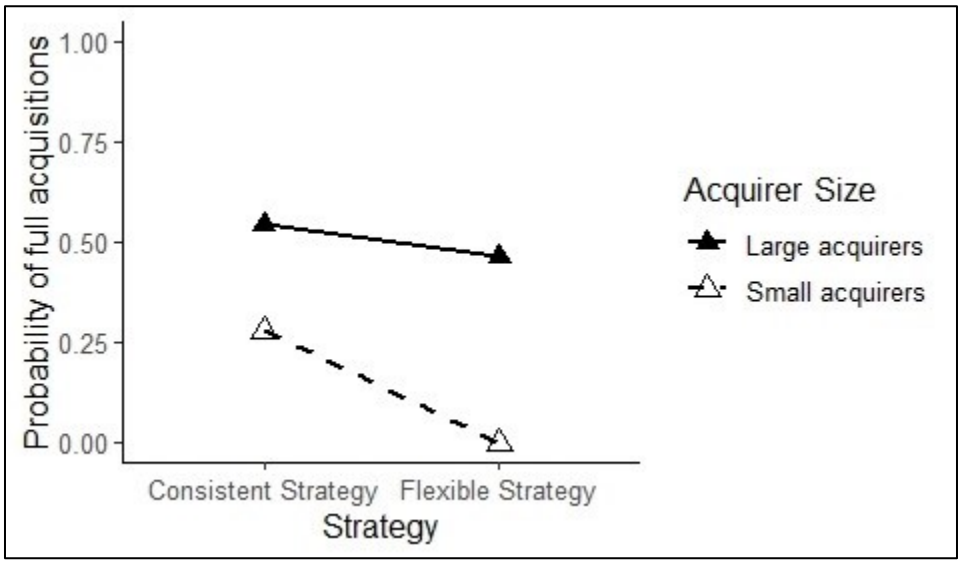
We found that large acquirers preferred full acquisitions, while small acquirers preferred partial takeovers. The direct effect of strategy was not significant, showing that strategy did not affect acquisition behavior across the whole sample. Our findings indicated that the effect of strategy on the acquisition behavior was more pronounced for small acquirers. This shows that it was not mainly the acquirer strategy but the moderating effect measured in terms of size and strategy of the acquiring firm that played an important role. While Moeller et al. (2004) showed that acquirer size mattered for returns, we found that size also mattered for cross-border acquiring firms in explaining the effect of strategy on the choice of either partial or full acquisitions. To say, Moeller et al. (2004) base their findings on theoretical grounds that large size acquirers are associated with a greater hubris and a greater agency dilemma. We further support Agarwal and Ramaswami results (1992) showing that large firms prefer sole investments over joint ventures to gain greater control over targets.

Table 7 Robustness checks of Study 1

	Model 1	*Model 2*	*Model 3*	*Model 4*
Strategy * Acquirer Size	-9.735 **	-8.927 **	-9.744**	-8.840 **
	(4.448)	(4.503)	(4.414)	(4.370)
Strategy	10.048 **	9.233 **	10.115**	9.218 **
	(4.361)	(4.356)	(4.379)	(4.268)
Acquirer Size	10.861 **	10.215 **	10.566**	9.855 **
	(4.439)	(4.489)	(4.38)	(4.326)
Institutional distance	-0.614 **	-0.564 *	-0.516	-0.485
	(0.307)	(0.307)	(0.318)	(0.301)
Host country size	1.299 ***	1.206 ***	1.075**	0.973 *
	(0.462)	(0.461)	(0.508)	(0.527)
Cultural distance	0.228	0.216	0.250	0.239
	(0.318)	(0.312)	(0.323)	(0.317)
Acquirer experience	-0.155	-0.150	-0.120	-0.119
	(0.097)	(0.096)	(0.104)	(0.103)
Target Size	0.679	0.251	0.684	0.227
	(0.961)	(0.916)	(0.954)	(0.916)
Deal relatedness	2.438	2.335 *	2.283*	2.192 *
	(1.263)	(1.235)	(1.287)	(1.259)
Developing host country			-1.434	-1.380
			(1.782)	(1.772)
(Intercept)	-13.483 **	-10.601 *	-12.037**	-9.438 *
	(5.487)	(5.507)	(5.720)	(5.521)
Industry dummies	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes
Pseudo R-square	77.88%	74.99%	78.30%	75.45%
Model chi-square	83.518	69.432	84.231	70.092

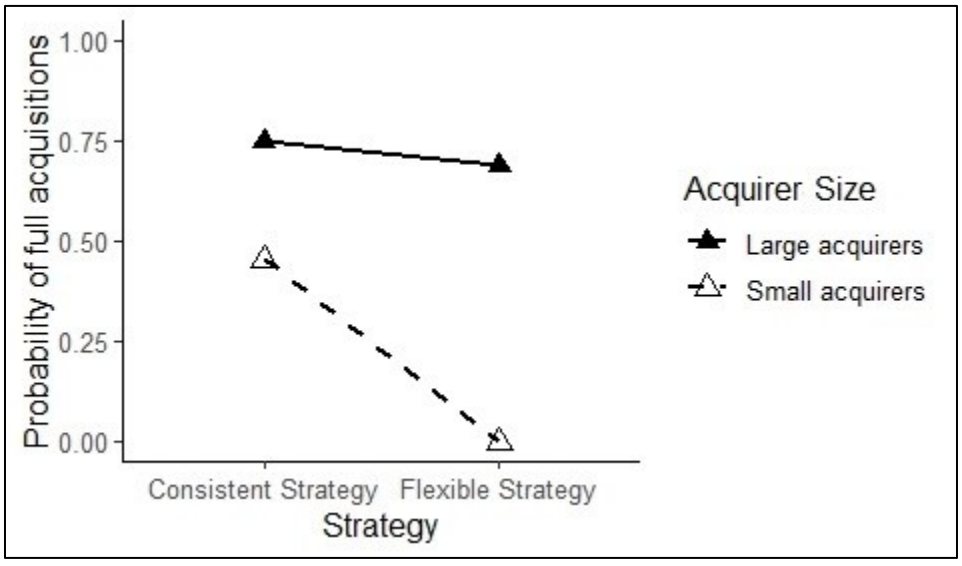
Note: Acquisition as the dependent variable (partial acquisitions=0, full acquisitions=1) is operationalized using the lower and upper bounds of 5% and 90% for Model 1, and 10% and 90% for Model 2 respectively for partial acquisitions. Model 3 and Model 4 are extensions of Model 1 and Model 2 respectively with an additional dummy variable of *developing host country*. ***, **, and * represent statistical significance at 1%, 5% and 10% levels respectively.

Figure 2 Interaction plot of strategy, acquirer size and acquisition behavior, where partial ownership is between 5% and 90%



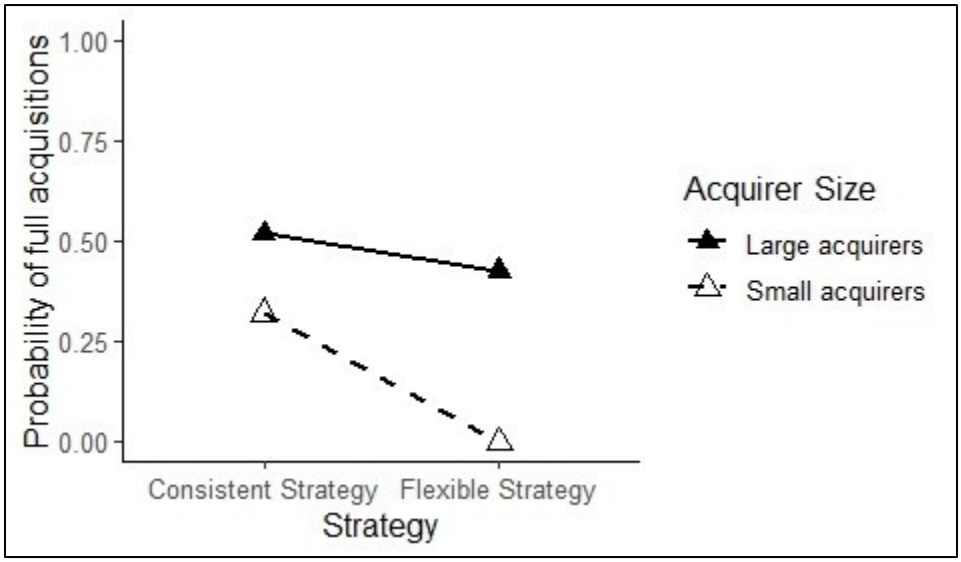
Note: Based on specifications of Model 1 (Table 7)

Figure 3 Interaction plot of strategy, acquirer size and acquisition behavior, where partial ownership is between 10% and 90%



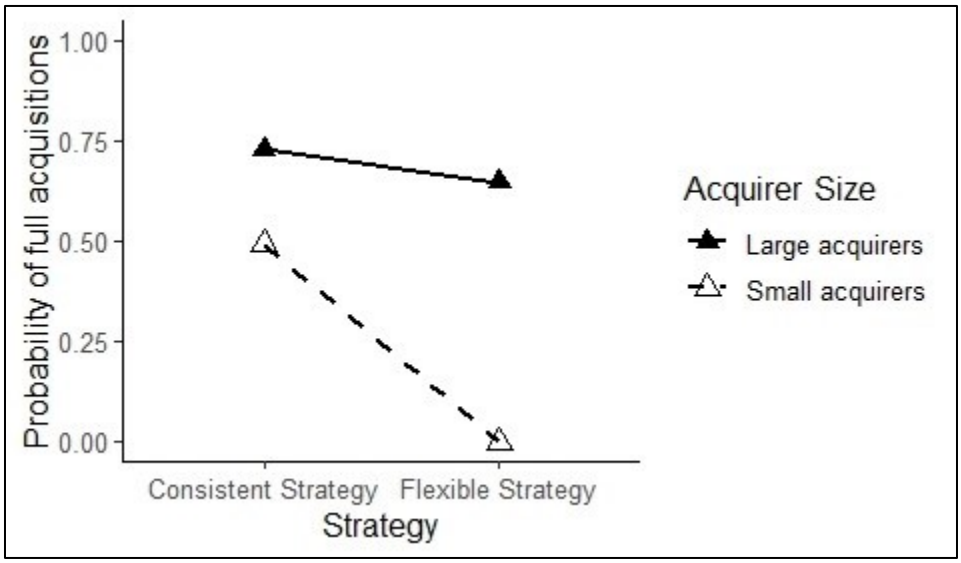
Note: Based on specifications of Model 2 (Table 7)

Figure 4 Interaction plot of strategy, acquirer size and acquisition behavior, where partial ownership is between 5% and 90%, and with adjustment made for developmental status of the host country



Note: Based on specifications of Model 3 (Table 7)

Figure 5 Interaction plot of strategy, acquirer size and acquisition behavior, where partial ownership is between 10% and 90%, and with adjustment made for developmental status of the host country



Note: Based on specifications of Model 4 (Table 7)

For small acquirers, we found that flexible strategy firms preferred partial acquisitions. These findings are in line with the central idea of Harrigan (1985), who found that while a vertical integration has numerous benefits, it increases exit barriers for acquirers with a flexible strategy (Harrigan, 1985). Similarly, our findings support the view that small acquirers with a consistent strategy prefer full acquisitions (Harrigan, 1985). In other words, consistent strategy firms focus on specializing on certain types of business, choosing targets that are expected to remain relevant for a considerable period of time. These firms do not face the issue of exit barriers. Hence, they would prefer full acquisition over partial acquisition. In our analysis, we found that this effect held true only for small acquirers. This conditional relationship makes intuitive sense because exit barriers are higher for small firms. Supporting the resource-based view, small acquirers – ceteris paribus – face more serious issues of constrained resources than large firms do.

For large acquirers, we found strategy had a reduced impact on their acquisition behavior. This is probably due to large firms emphasizing rather industry developments or governmental changes when making investments. The impact of strategies and managerial discretion is greatest at the organizational founding of a firm (Boeker, 1989; Stinchcombe, 1965), and it decreases as firms grow in size (Anwar and Hasnu, 2017). In other words, as firms grow in size, strategic choices available to the firm become limited as other external factors become more important (Thomas and Ramaswamy, 1996).

The study has important implications for practitioners. Regarding the decision whether to undertake full or partial acquisition, firms should consider their size and strategy as a set together. Since size plays an important role in the relationship between strategic consistency and partial acquisitions, organizations should carefully reflect on the elements of their resources. Large

firms have capacity to fully acquire cross border targets; however, smaller firms with a consistent strategy have to be aware of the ramifications an integration of a target may cause. Irrespective of strategy, managers at small firms have to be aware that their firms will grow in size after full acquisition, and there need to be a change in management style incorporating other (new target managers') opinions.

While the study has made some contributions to the literature, like all other studies, it does not come without limitations. In this study, consistency and flexibility in strategy are operationalized as a dichotomous choice. As such, it does not capture the variability in strategic flexibility. However, in reality, flexibility is a matter of inclination where some acquirers are flexible in varying degrees. Nonetheless, this study, based on previous findings (Anwar and Hasnu, 2017), contributes to the M&A literature by investigating the acquirer's strategy in relation to acquisition behavior. In future, scholars can triangulate measures between consistency and flexibility rather than operationalizing it as a dichotomous choice. Also, several intriguing questions need to be answered. For example: Do consistent or flexible strategy firms enjoy better financial performance after their acquisition of cross-border targets? What crucial role do other environmental and industrial factors play in explaining the relationship between strategy and acquisition behavior?

2.9. Conclusion

This study started off by asking two simple questions. First, do large cross-border acquirers prefer full acquisitions while smaller ones prefer partial acquisitions? Second, does business strategy matter when deciding whether to fully or partially acquire cross-border targets? Based on the concept of the resource-based view of the firm, we empirically investigated these relationships.

From a sample of Japanese cross-border acquirers, our results were mainly confirmed and robust. We found that large acquirers took over their cross-border targets rather fully, while small acquirers preferred to partially participate in them. For the effect of strategy on acquisition behavior, we found that small acquirers with consistent strategy preferred full acquisitions. In contrast firms with a flexible strategy preferred partial acquisitions. However, for bigger firms, the impact of strategy on acquisition behavior was minimal.

The research contributes to the literature by correlating strategy to the choice of partial versus full acquisitions. Additionally, this study provides useful implications for practitioners. It cautions top managers to consider the acquirer size and its strategy as important factors for the choice of full versus partial acquisitions.

Chapter 3

Study 2: The effect of Miles and Snow strategies on the choice of partial or full acquisitions

3.1. 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 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; mergers and acquisitions; Japan.

Note: An earlier version of this study entitled “Strategy impact on the choice of partial versus full acquisitions” has been published in *International Journal of Management Practice* (Ahmed & Bebenroth, 2020).

3.2. 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 (Aggarwal-

Gupta et al., 2012; Danakol et al., 2017; Verma and Sharma, 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 "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. While recent studies based on Miles and Snow typology offer intriguing insights on various dimensions of firm performance (Anwar and Hasnu, 2016, 2017; Yu et al., 2017; Yuan et al., 2018), the above-mentioned research gap remains. Hence, 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 viable strategies. We apply transaction cost economics, strategic capability perspective and strategic cognition perspective to cross-border acquisitions.

Based on logistic regression analysis, our results 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.

3.3. Literature review

3.3.1. 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.

3.3.2. 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; the so-called reactor strategy. Such a strategy is adopted by firms that do not have any clear focus on neither innovation nor production efficiency. Rather, it seems that the environmental pressure leads such firms to "react" to competitors. This strategy is considered non-viable and therefore, firms that adopt such a reactor strategy are not considered for 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.

3.3.3. Partial versus full acquisitions

Upon concluding cross-border acquisitions, firms have to decide whether they want to operate independently 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 industry R&D 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 considerably high cultural distance (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 considerably high formal institutional distance to their targets (Chari and Chang, 2009; Demirbag et al., 2007; Lahiri et al., 2014).

3.3.4. 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 in this regard of two strategies, viz. business relatedness and corporate international experience. 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.

3.4. Hypothesis development

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

3.4.1. Prospectors versus defenders

We compared prospectors against 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.

H1: Prospectors prefer full acquisitions whereas defenders prefer partial acquisitions.

3.4.2. 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:

H2: Analyzers prefer full acquisitions whereas defenders prefer partial acquisitions.

3.4.3. Prospectors versus analyzers

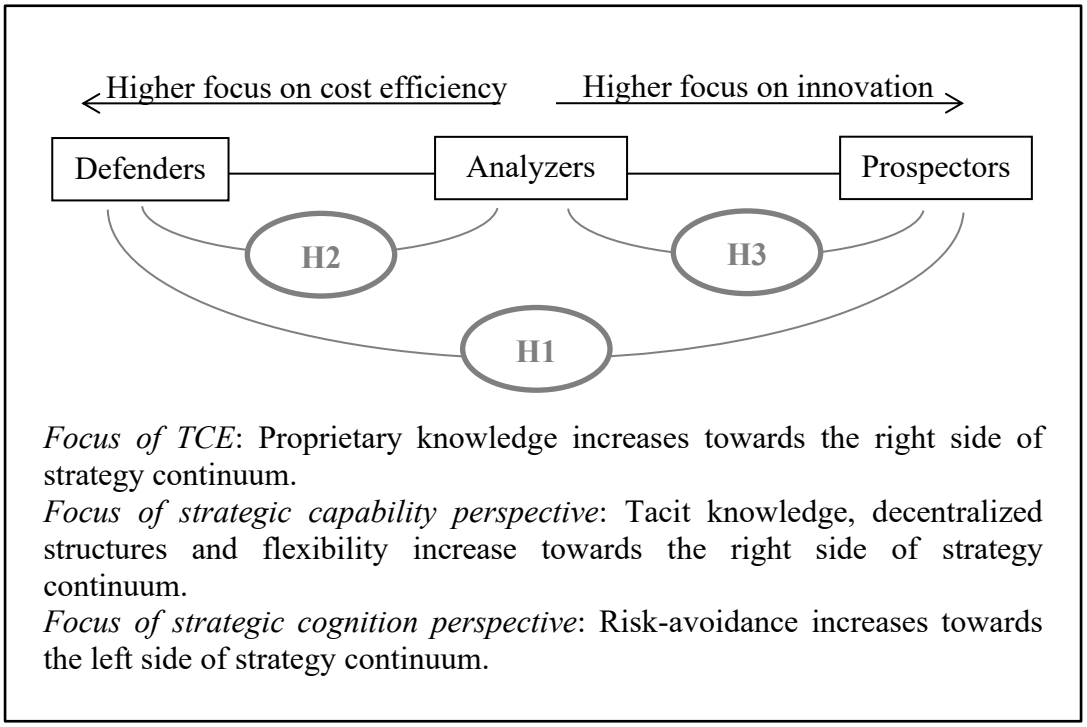
As stated above, analyzers are positioned somewhere in the middle between the two extreme strategies of prospectors and defenders (Blackmore and Nesbitt, 2013; Pittino & Visintin, 2009). Hence, analyzers are relatively less focused on innovation compared to prospectors (Hambrick, 2003). Therefore, applying 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, 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:

H3: Even if both prospectors and analyzers prefer full acquisitions, prospectors have a higher tendency to do so.

Figure 6 refers to the continuum of viable strategies.

Figure 6 The continuum of viable strategies as per the Miles and Snow typology



3.5. Research design and method

3.5.1. 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:

$$Prob\ (full\ acquisitions = 1)$$

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

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.

3.5.2. 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.

3.5.3. 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 8 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 8 Measures used for strategy classification in Study 2

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)

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).

To be more specific, we illustrate how we would classify the strategy of Takeda Pharmaceutical Company, e.g. for its acquisition of Ariad Pharmaceuticals in 2017. First, Takeda was scored along four dimensions of strategy (marketing focus, production inefficiency, growth focus, capital intensity ratio) based on their proxies highlighted in Table 8. As this acquisition was announced in 2017, we took average values of proxies for the period 2012-2016. For the first score (on a marketing focus), Takeda received a value of 0.3297. We then ranked our data in ascending order with respect to this measure, and Takeda ranked 91st out of 105. Hence, being in the last quantile, Takeda received a quintile score of 4. The quintile score for the second strategy variable (production inefficiency) and third (growth focus) measure were given in the same way. However, for the last variable (capital intensity ratio), the scores were ranked in descending order. Afterwards, Summing up all four quantile scores, we allotted a discrete strategy score of 9 to Takeda. Therefore, applying the defined scale, we classified Takeda as an analyzer.

3.5.4. 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, the acquisition 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 the acquirer (Japan) and the target country following Kogut and Singh's (1988) composite index, based on the four cultural dimensions of Hofstede (1980): power distance, individualism-collectivism, masculinity-femininity, and uncertainty avoidance. Kogut and Singh (1988) developed the following index:

$$CD_{jk} = \sum_{i=1}^{4} \{(I_{ij} - I_{ik})^2 / V_i\} / 4$$

CD_{jk} refers to cultural distance between *j*th (Japan) and *k*th country, where I*ij* stands for the *i*th cultural dimension in the *j*th country (Japan), and similarly, I_{ik} stands for the *i*th cultural dimension in the *k*th country. V_i is the variance of the index of the *i*th dimension. As an illustration, the cultural distance between Japan and United States was calculated in the following way. For power distance dimension, Japan and United States scored 54 and 40 respectively. Hence, the "(I_{ij}-I_{ik})" part for the power distance dimension equaled 14, which was first squared and afterwards divided by the variance of the power distance dimension. After conducting similar operation for other three dimensions, we average the "{(I_{ij}-I_{ik})^2/*Vi*}" part of all four cultural dimensions. The resulting number represents cultural distance between Japan and the United States.

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 the country risk based on World Bank's six governance indicators (Kauffman et al., 1999) following the formula of Morosini et al. (1998).

$$ID_{jk} = \sqrt{\sum_{i=1}^{6}(I_{ij} - I_{ik})^2}$$

ID_{jk} refers to institutional distance between *j*th (Japan) and the *k*th country, where I*ij* stands for *i*th institutional dimension in the *j*th country (Japan), and similarly, I_{ik} stands for *i*th institutional dimension in the *k*th country. Note, six dimensions of the Worldwide Governance Indicators (WGI) are as follows: (1) voice and accountability, (2) political stability and lack of violence, (3) government effectiveness, (4) regulatory quality, (5) rule of law, and (6) control of corruption.

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 9.

3.6. Data and descriptive statistics

3.6.1. 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. Also, we considered 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 to measure institutional distance and the variable of host country size. 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 without classifying reactors. This is in line with prior studies which assume that firms with reactor strategy are not present in the sample (Hambrick, 1981; 1982, 1983; Liang et al., 2009; Sarac et al., 2014; Thomas and Ramaswamy, 1996). Hence, all 105 observations were utilized by assigning acquirers one of the three viable strategies. 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 where we identified seven reactors and excluded them from our sample. Hence, for robustness check, we assigned one of the three viable strategies to 98 acquirers.

Table 9 Summary of variables of Study 2

Variables	*Definitions*	*Prior Applications*	*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	Kogut and Singh (1988) composite index based on the four cultural dimensions of the Hofstede (1980): power distance, individualism-collectivism, masculinity-femininity, and uncertainty avoidance.	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

3.6.2. 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 10. Furthermore, acquirer name, announcement year, assigned Miles and Snow strategy and acquirer industry subgroup for all observations have been provided in the appendix.

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 11 gives a comprehensive break down into countries of the target firms.

Descriptive statistics are provided in Table 12. 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 13. 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 10 Distribution of acquirer's Miles and Snow 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%

Note: Table 10 shows the number of partial and full acquisitions for three types of viable strategies. Percentages under partial and full deals show the proportion of partial and full acquisitions for each viable strategy. Percentages under complete sample represent the proportion of acquisitions represented by each viable strategy. For example, out of total 15 acquisitions made by prospectors, 60% were partial and 40% were full acquisitions. Likewise, 14.29% in the last column represents the proportion of deals in our sample made by prospectors.

Table 11 Countries-of-origin of target firms of Study 2

Countries	*Number of deals for each country*	*Total cases by row*	*Percentage of the total sample*
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 11 reports countries of origin of target companies acquired by Japanese acquirers for our sample of 105 deals. The third column *"total cases by row"* summarizes total number of acquisitions represented by all countries together, listed in the first column. For example, five acquisitions were made in each of the three countries, viz. Britain, Malaysia, and Vietnam. Hence, the third column shows that these three countries together represent 15 acquisitions in our sample.

Table 12 Descriptive statistics of Study 2

	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: Table 12 shows means and medians of our variables for the complete sample, subsample of partial and full acquisitions. ***, **, and * refer to statistical significance at 1%, 5%, and 10% levels, based on T-tests for the differences in mean values, and on Wilcoxon tests for the differences in median values between partial and full acquisitions.

Table 13 Correlation matrix of Study 2

	(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: Table 13 represents the correlation matrix based on Pearson's method. Definitions and related information about all variables are presented in Table 9. ***, **, and * under the coefficients represent statistical significance at 1%, 5% and 10% levels respectively.

3.7. Results and robustness checks

The results of our regression analysis are provided in Table 14. 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 (β = 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 (β = 6.563, $p < 0.05$) suggested that analyzers too preferred full acquisitions. H2 was therefore supported. In Model 2b, the non-significance of prospectors (β = 0.426, *n.s.*) showed that H3 was not supported.

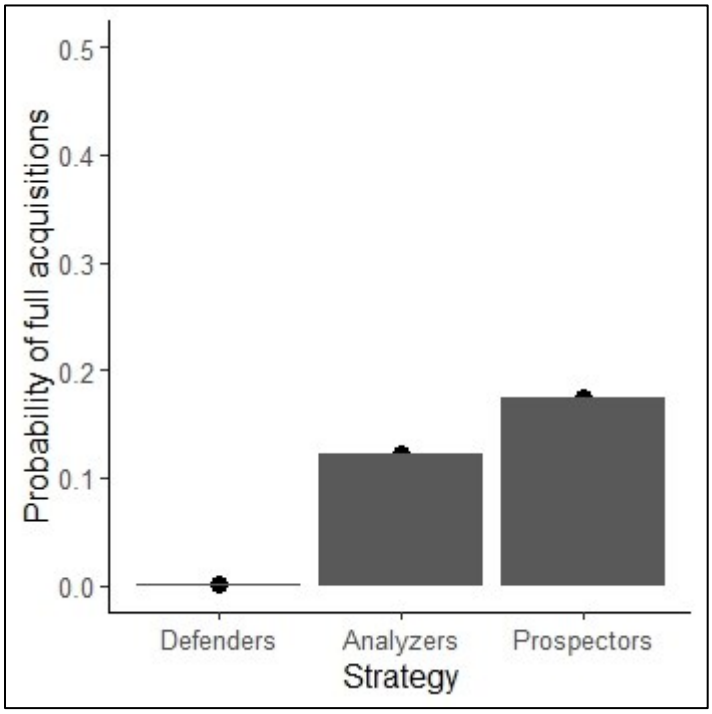
For a better understanding, we depict the predicted probabilities of full acquisitions for all three strategies in Figure 7. The probability of full acquisitions for defenders was close to zero. In contrast, the probability of full acquisitions for the other two strategies was significantly higher than that of defenders (H1, H2). Although the predicted probability of prospectors was higher than that of analyzers, the non-significance of prospectors (Model 2b, β = 0.426, *n.s.*) showed that the difference between their predicted probabilities was not statistically significant (H3).

Table 14 Main results of Study 2

	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.

Figure 7 Predicted probability of full acquisitions for each Miles and Snow strategy



Note: Based on specifications of Model 2 (Table 14)

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 15. All the models were based only on viable strategies after excluding seven reactors from the sample. We followed the procedure by Anwar and Hasnu (2016, 2017) to classify reactor strategy. For this, we first 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.

In the first two models, we additionally focused on an 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). This operationalization is based on the idea that especially the dimension "uncertainty avoidance" is more relevant than others for the choice of partial versus full acquisition. Specifically, the following formula was used to calculate the cultural distance.

$$CD_{jk} = \sqrt{(I_j - I_k)^2}$$

Where CD_{jk} refers to cultural distance between *j*th (Japan) and *k*th country, I*j* stands for uncertainty avoidance dimension in the *j*th country (Japan), and I_k stands for uncertainty avoidance dimension in the *k*th country.

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 (Table 15). 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 8.

3.8. 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

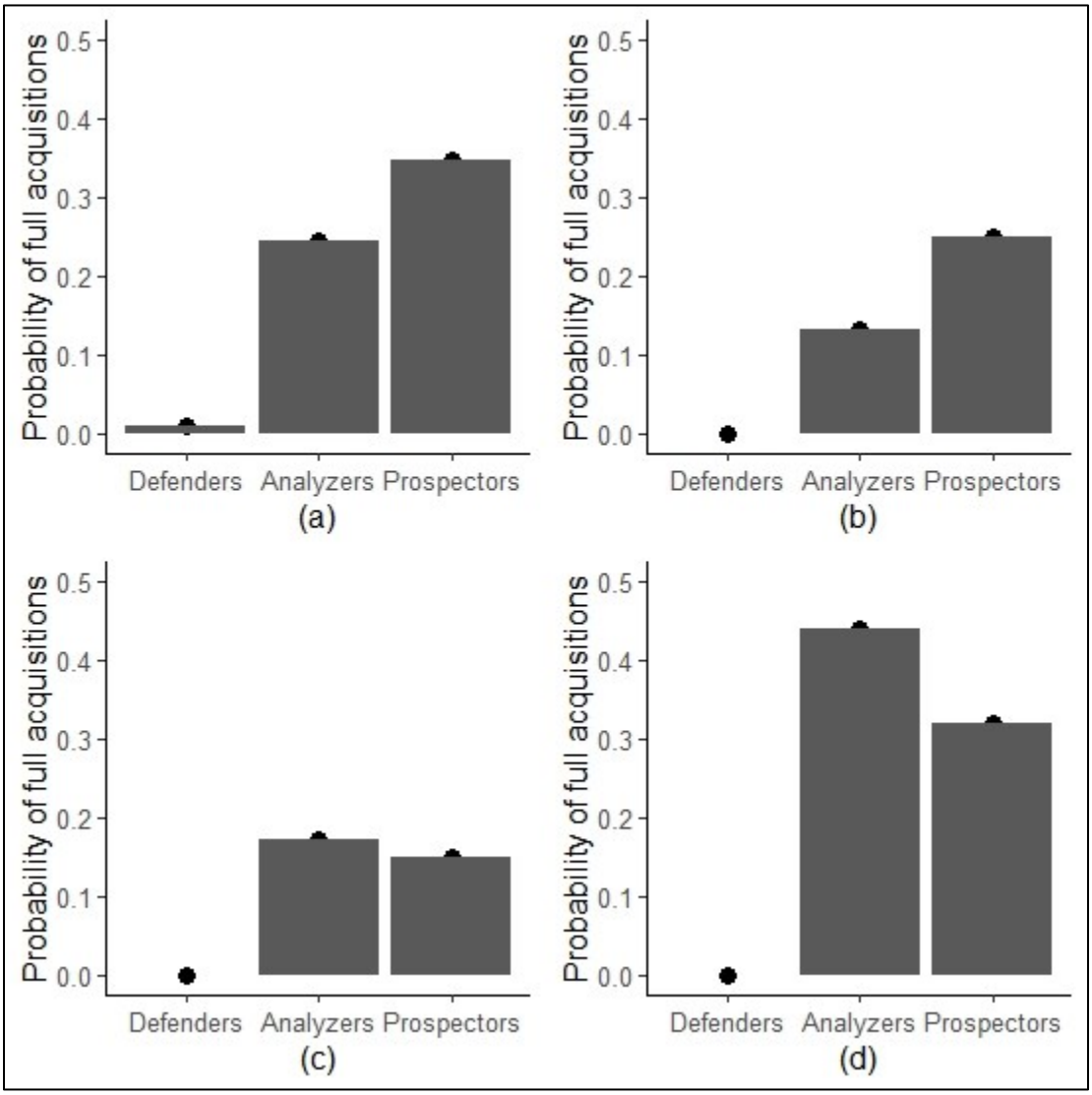
shared-ownership entry modes hold true in specific cases of cross-border acquisitions. Additionally, we also found that analyzers, too, preferred full acquisitions.

Table 15 Robustness checks of Study 2

	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 14) after taking outs seven 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.

Figure 8 Predicted probability of full acquisitions for robustness check of Study 2



Note: Figure 8 (a) to (d) are based on specifications of Model 1 to Model 4 respectively from Table 15.

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 aligns 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 can be better described as 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. These findings are robust and should be applicable also in the context of acquisition behavior at other countries.

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 integrating the acquired targets fully is a more complicated act (Herrmann and Datta, 2002; Tatuskar, 2014). 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 their strategic behavior.

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. Fourth, we limited the scope of this study to only viable strategies. Future research should also include the acquisition behavior of reactors too, and also of firms with consistent or flexible strategies (Anwar and Hasnu, 2017). 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.

3.9. 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.

Chapter 4

Study 3: The effect of country-of-origin on the choice of partial or full acquisitions

4.1. Abstract

The purpose of this paper is to investigate how emerging and developed market multinationals (EMMs and DMMs) differ in their acquisition behavior (vis-à-vis the choice of partial versus full acquisitions) when entering a developed market economy, Japan. We hypothesize that EMMs prefer partial acquisitions whereas DMMs prefer full acquisitions due to what we call the country-of-origin effect. Additionally, we hypothesize that this country-of-origin effect is more pronounced for smaller firms. The results, based upon 224 strategic cross-border acquisitions in Japan, support these two hypotheses. This study contributes to the literature on EMMs.

Keywords: Emerging markets multinationals (EMMs); developed market multinationals (DMMs); partial acquisitions; full acquisitions; Japan

Note: An earlier version of this study entitled "Acquisition behavior of emerging versus developed market multinationals" has been published in *Organizations and Markets in Emerging Economies* (Ahmed & Bebenroth, 2019a).

4.2. Introduction

Emerging market multinationals (EMMs) have received increasing attention in international business literature in the last two decades (Agnihotri & Bhattacharya, 2018; Buckley et al., 2014; Demirbag et al., 2009; Marchand, 2017; Luo, 1998; Panibratov et al., 2018; Sarapovas et al., 2016). Studies have shown that EMMs differ from developed market

multinationals (DMMs) in a number of areas such as strategic flexibility (Luo & Rui, 2009), motivation for expansion (Luo & Tung, 2007), pace of internationalization (Dunning, 2006; Mathews, 2006), and firm specific advantages (Guillen & Garcia-Canal, 2009). However, only a limited number of studies have compared characteristics of country-of-origin effects between EMMs and DMMs with regard to their acquisition behavior. Similarly, very few studies have been conducted to contrast EMMs to DMMs vis-à-vis their choice of partial versus full acquisitions (Chikhouni et al., 2017; Contractor et al., 2014; Lahiri et al., 2014). In this study, a full acquisition refers to a complete transfer of the target's ownership to the acquirer whereas a partial acquisition signifies a fractional ownership transfer.

Several studies have been conducted to investigate the country-of-origin effect, with targets acquired in emerging markets (Contractor et al., 2014; Lahiri et al., 2014). Chikhouni et al. (2017) went a step further and contrasted cross-border transactions of EMMs and DMMs in emerging and developed markets. However, their focus was on moderating variables, rather than on direct effects of country-of-origin. To the best of the authors' knowledge, how DMMs and EMMs differ in their choice of partial versus full acquisitions in a *developed* market remains a gap in the literature.

In this study, we focus on Japanese targets of cross-border acquisitions. We argue that acquisitions in Japan provide important insights for a number of reasons. First, various attempts were undertaken by the Japanese government during the 1997-2001 period to liberalize M&A activities (Takechi, 2011). Subsequently, the number of foreign firms making acquisitions in Japan has increased significantly. Second, Japan enjoys an exclusive geographical advantage as many emerging economies are located nearby, or at least at a convenient distance to Japan. Examples of such countries are China, Indonesia, Malaysia, and Thailand. Third, Japan ranks

among the top economies in the world, and emerging economies find it particularly attractive to invest in Japan (Recof, 2018). Hence, in this study, we test two hypotheses on a dataset of 224 strategic cross-border acquisitions in Japan. First, we hypothesize that DMMs, unlike EMMs, prefer full acquisitions when entering Japan. Additionally, we hypothesize the size of the acquirer is crucial in affecting the relationship between acquirer's country-of-origin (DMMs versus EMMs) and the acquisition mode (partial versus full acquisitions). More specifically, we hypothesize that tendency of DMMs to prefer full acquisitions and that of EMMs to prefer partial acquisitions will be more pronounced for smaller firms. The results, subject to a number of robustness checks, support these two hypotheses. Hence, we contribute to the growing literature on EMMs, entry mode, and cross-border acquisitions by showing fine-grained differences of acquisition behavior of bidders that are DMMs and EMMs.

This paper proceeds as follows. In the next section, we review the relevant literature followed by several hypotheses. After that, we present the methodology, data and descriptive statistics, followed by results and robustness checks. The study ends with a discussion and conclusion.

4.3. Literature review

4.3.1. Market entrance modes

Early models of entry mode, in a nutshell, assume entry mode choice solely determined by multinational enterprises (MNE). More specifically, those models are based upon various features of MNE such as control, risk appetite, or experience in the host market (Anderson & Gatignon, 1986; Johanson & Vahlne, 1977). Dunning's (1988) OLI and the internationalization model by Rugman & Verbeke (1990) do recognize that MNEs seek to bundle (or combine) their firm-specific advantages (FSA) with complementary assets present in the host country. For

example, MNEs with firm specific advantages in technology attempt to bundle their technology with complementary assets such as distribution networks of targets in the host country.

Hennart (2009) challenges prior literature to claim that complementary assets are not freely available to all participants. Departing from this idea, the bundling model takes into account that transaction cost dynamics of complementary assets play a major role in investment behavior and that equal access to complementary assets may not be given (Dow, 2017). Nevertheless, the bundling model still predicts that the entry mode choice of EMMs and DMMs would be the same when entering a foreign country.

4.3.2. Differences between EMMs and DMMs in international expansion

Early theories of entry mode focused solely on the expansion of DMMs from Europe, especially Britain, or from the US. It was found that these firms expanded globally after they had internally developed intangible assets such as technology, brand names, or superior managerial expertise (Dunning, 1988). DMMs expand both vertically and horizontally. Vertical expansion occurs when a firm sets up its production or distribution in a forward or backward supply chain in a foreign country. In contrast, horizontal expansion takes place when firms locate a similar line of business in other countries. Vertical expansion is usually motivated by cost-related reasons while horizontal expansion is often a result of possessing intangible assets such as brand names or technologies. Hence, when EMMs start to expand vertically, scholars can still justify these movements easily with their existing theories. However, when EMMs start to expand their cross-border investment operations horizontally, e.g. to take over a firm in the same line of business, scholars lack theoretical justification for these movements (Guillen & Garcia-Canal, 2009).

Researchers respond to these horizontal expansions of EMMs in three major ways (Chikhouni et al., 2014; Cuervo-Cazurra, 2012; Gammeltoft et al., 2010). One group argues that conventional theories still hold unchanged to explain market entrance mode of EMMs (Rugman, 2009). Another group claims that this phenomenon requires new theories (Mathews, 2006; Hennart, 2009, 2012; Luo & Tung, 2007). The third group argues that existing theories (applicable so far to DMMs) have to be extended to include EMM characteristics instead of developing new theories (Chikhouni et al., 2014; Cuervo-Cazurra, 2012). To theorize characteristics of EMMs in building new concepts, the literature has witnessed a tremendous increase of EMM studies on international expansion compared to traditional DMM studies (Buckley & Munjal, 2017; Kalasin et al., 2014; Malhotra et al., 2011; Ning et al., 2014; Jormanainen & Koveshnikov, 2012).

Luo & Tung (2007) present a springboard perspective to explain motivation, dynamics, processes, and challenges unique to international expansion of EMMs. They contend that EMMs' international expansion was motivated by their need to acquire strategic assets and to reduce institutional and market constraints at home. Building upon this springboard argument, Elango & Pattnaik (2011) show that EMMs' resource commitment in cross-border acquisitions (in terms of transaction value over acquirer assets) is positively affected by the firm's absorptive capacity and acquisition experience. Mathews (2006) argue that EMMs are different from DMMs based on three distinct characteristics, viz. rapid internationalization, strategic innovation, and organizational innovation. Focusing on the process of knowledge flows, Awate et al. (2015) suggest that DMMs' internationalization can be explained in terms of a twin strategy to exploit and to create competence. In contrast, EMMs' internationalization is motivated by a catch-up strategy, when EMMs' headquarters *access* knowledge from R&D

facilities in advanced economies. Cuervo-Cazurra & Genc (2008) argue that EMMs have an advantage over DMMs when investing in least-developed countries. Findings support their argument that there is a higher presence of EMMs in less developed countries as compared to DMMs. According to Ramamurti (2012a), EMMs pose a competitive threat to DMMs in that manner. He further argues that non-traditional advantages of EMMs such as deep understanding of customers in emerging markets, or the ability to make products at ultra-low costs are in no way inferior to technological or brand-related advantages of DMMs (Ramamurti, 2012b).

Luo & Rui (2009) conceptualize an ambidexterity perspective towards EMMs, i.e. EMMs have greater need, motivation, and ability to exercise ambidexterity than DMMs. Nevertheless, taking an evolutionary perspective, Narula (2012) contends that EMMs still have limited capabilities, resulting in inadequate development of locational assets in their home countries. According to Narula (2012), the differences between EMMs and DMMs would diminish in the near future. Michailova & Ang (2008) examine how regulatory, normative, and cognitive pillars of institutions affect firms when conducting non-equity alliances versus equity alliances. Based on insights of the institutional theory, they find that this relationship is moderated by the status of host countries (whether they are developed or emerging).

It must be mentioned that Chinese firms, especially, have received much attention in this regard (Child & Rodrigues, 2005; Masiero et al., 2017; Xia et al., 2014; Xie, 2017; Xie & Li; 2017; Yiu et al., 2017). For example, Child & Rodrigues (2005) argue that Chinese MNEs differ from DMMs by having a late-comer perspective, catch-up strategies, an institutionalized role of government, a different relationship of entrepreneurs to Chinese institutions, and that they face a stronger liability of foreignness than their DMM counterparts when investing abroad. Based on their research on the tenets of the resource dependence theory, Xia et al. (2014) show that the

level of interdependence between Chinese and foreign firms is positively associated with the level of outward foreign direct investment activities, i.e. the higher the investment, the higher the dependence. Additionally, there is evidence that this relationship is weaker for local firms with a higher level of state ownership. Yiu et al. (2007) focus their research on the international venturing of Chinese firms. They show that positive effects of firm-specific ownership advantages on international venturing are moderated by the degree of home industry competition and export intensity. A further finding is that this relationship is mediated by the intensity of corporate entrepreneurship transformation. In a different study, Xie & Li (2017) investigate the extent to which Chinese cross-border acquisitions are influenced by either the investment behavior of DMMs or by their Chinese peers. Their results show that Chinese firms tend to imitate their peers rather than foreign DMMs. They additionally find that state-owned firms show a lower likelihood to imitate other firms. In their conceptual paper, Masiero et al. (2017) focus on the Chinese phenomenon of going global in groups and evidence that such Chinese firms' internationalizing in groups enjoyed more advantages than individual firms. Luo (1998) contrasts Chinese target firms taken over by EMMs or DMMs. He finds that the targets taken over by DMMs scored higher on strategic traits like product diversity, market breadth, pro-activeness, futurity, R&D intensity, and resource commitment. In contrast, Chinese targets acquired by EMMs implement a stronger promotion program. Hence, the review of literature shows that the characteristics of EMMs and DMMs differ on entry modes.

4.3.3. Choice of partial versus full acquisitions

There are only a limited number of studies distinguishing EMMs and DMMs on entry mode with regard to their choice of partial versus full acquisitions (Chikhouni et al., 2017; Contractor et al., 2014; Lahiri et al., 2014). Focusing on acquisitions of targets in China and

India, Contractor et al. (2014) added country-of-origin as a control variable in their study based on the belief that "a firm from one emerging market [EMM] planning to acquire an entity in another emerging market may be at a relative advantage [as compared to other DMM] owing to its general familiarity with the cultural, risk-related, and industrial environments of the target nation" (p. 936). Despite strong theoretical argumentation, the country-of-origin variable was found to have insignificant influence.

Lahiri et al. (2014) examine cross-border acquisitions in the services industry in India, investigating how the choice of partial versus full acquisition is affected by three variables, viz. the type of service (hard versus soft), institutional distance, and country-of-origin. They find evidence that when EMMs acquired targets in India, two variables, viz. the choice of soft services and a higher institutional distance increase the likelihood of full acquisitions. However, for DMM acquirers, both variables have an opposite effect. Their results show that, *ceteris paribus*, EMMs preferred full acquisitions when taking over Indian firms whereas DMMs prefer partial acquisitions. These results are in line with the argument of Contractor et al. (2014) that in an emerging market, EMMs prefer full acquisitions whereas partial acquisitions are more likely with DMMs.

Chikhouni et al. (2017) investigate how the choice of partial versus full acquisition is influenced by the direction of investments and their psychic distance. They focus on four directions (or scenarios) as follows: DMMs acquiring in emerging markets, DMMs acquiring in developed markets, EMMs acquiring in emerging markets, and EMMs acquiring in developed markets. They find that a higher psychic distance is associated with the choice of partial acquisitions for the first three scenarios. In contrast, for the last scenario, EMMs with a higher psychic distance to their (developed country) targets made full acquisitions. In this study, we

compare the phenomenon of EMMs and DMMs acquiring targets in a developed market economy. More precisely, focusing on Japan as a developed (target) market, we add to the literature on how EMMs and DMMs differ in their choice of partial versus full acquisition.

4.4. Hypothesis development

We build our hypothesis upon the dominant view of the literature regarding the reasons for EMMs and DMMs undertaking international expansion. For DMMs we assume that firms expand to other countries (in our case, Japan) primarily for exploitation of their resources or to access the local market (Gullien & Garcia-Canal, 2009). For EMMs we assume that firms expand to Japan through asset-seeking motives to acquire brand names, knowledge, technology (Child & Rodrigues, 2005; Deng, 2007; Madhok & Keyhani, 2012; Rui & Yip, 2008) or to seek a new market (Ning & Sutherland, 2012). While acknowledging that exceptions exist (Pradhan, 2010), we contend that these assumptions allow us to compare two groups, specifically EMMs and DMMs, investing in a developed market country, namely Japan.

When DMMs acquire Japanese firms for specialized technology, it is arguably beneficial to conduct full acquisitions so that conflicts with the Japanese partner side can be eliminated. This line of reasoning that applies to technology can be extended to distribution. To sell products, DMMs require market-specific knowledge about Japan such as distribution network, marketing, sales, and logistics. Hence, DMMs taking over Japanese targets can secure the whole process without any interference by the Japanese side only through a full acquisition. More specifically, as Japan recently experienced an increased liberalization of their M&A industry, full acquisitions of firms with established distribution networks are easier to handle and face less political resistance, unlike in the past. A case in point, for instance, is the full acquisition of a

Japanese target, Dimatech Corporation, by US-based NetSilicon. Japan was considered as a potential market for their specialized technology of embedded Ethernet networking solutions.

Scholars contend that the strategy of EMMs differs from DMMs when taking over cross-border targets. EMMs acquire targets which are easier to manage as they have less experience with foreign market entrances (Xi & Li, 2017). Based on the latecomer perspective, EMMs are more inclined to participate in targets rather than make full acquisitions. As Japanese target firms often own brand names and specialized technology, transaction costs for EMMs are generally quite considerable owing to their high asset specificities. Moreover, political pressure can result in partial acquisitions when, for instance, the target country government does not permit foreign firms to make full acquisitions (Child & Rodriguez, 2005). This pressure naturally is higher for EMMs entering a developed market economy than for DMMs. An example is the Japanese target firm, Renown for which a Chinese firm (Shandong Ruyi) initiated a partial acquisition (APLF, 2010). Another example providing support for our argumentation that EMMs tend to make partial acquisitions of cross-border targets is the case of PT Astra Otoparts Tbk, an Indonesian firm that acquired a minority stake in E-tech Incorporated in 2007. This allowed the Indonesian auto parts manufacturer to benefit from the target's expertise in electronic equipment. Furthermore, it permitted the target to get more solid knowledge about Indonesian customers. Hence, we expect a higher likelihood that DMMs invest in Japan by making full acquisitions, while EMMs would rather partly participate in Japanese firms. Our first hypothesis is as follows:

H1: When entering Japan, country-of-origin matters such that DMMs prefer full acquisitions whereas EMMs prefer partial acquisitions.

We now theorize on how size of the acquiring firm has a moderating influence on the relationship between the acquirer's country-of-origin (EMM or DMM) and the acquisition mode

(partial or full acquisitions). Large firms have superior and more advanced technology, distribution capabilities and better marketing in their home countries. This is especially true for DMMs, and also to some extent for EMMs. Besides our argumentation leading to hypothesis 1 that DMMs have a higher likelihood of making full acquisitions because of their need for growth and control (Chikhouni et al., 2017; Cui & Jiang, 2012; Lee et al., 2008), we are also of the view that EMMs and DMMs differ in their choice of partial versus full acquisitions when the size of the acquiring firm is taken into consideration.

For bigger firms, it may not matter too much if they are EMMs or DMMs. Bigger EMMs often enjoy good support from their governments (Child & Rodriguez, 2005). Also, they have good networks and can afford to employ consultants in host countries (Wright et al., 2005). Hence, larger EMMs are less dependent on external pressure compared to smaller ones. In other words, because of the similarities between large EMMs and DMMs, the decision by both firms to make a full acquisition when entering a country like Japan reflects comparable behavior. To illustrate such a case, we look at a small Indonesian firm, PT Astra Otoparts Tbk and a Chinese firm, The Founder Group. The former partially bought into E-tech Incorporated to enter Japan, while the latter, The Founder Group, (9 times bigger than the Indonesian firm) opted for full acquisition by buying a Japanese software firm, True Luck Group Ltd.

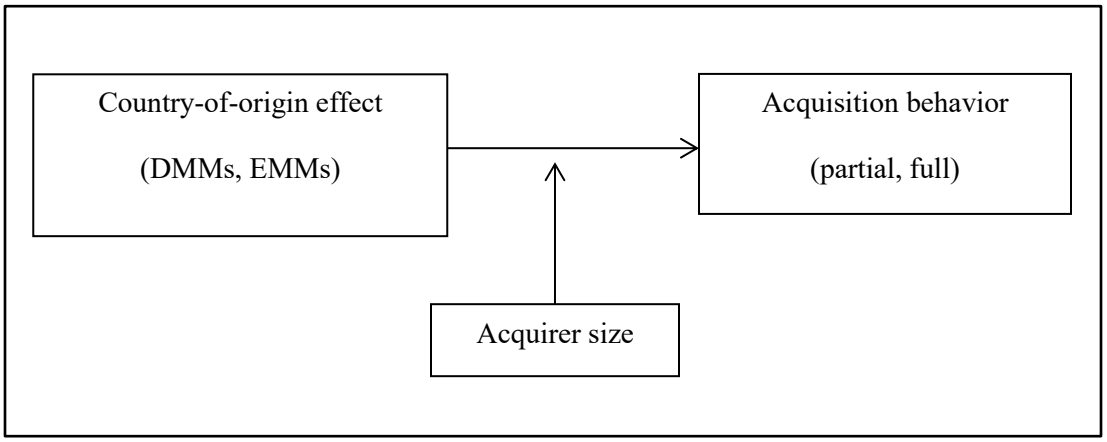
We argue that EMMs, on average, prefer partial acquisitions because smaller EMMs have more shortcomings compared to bigger EMMs. They do not have the government backup that bigger EMMs have (Hennart, 2012). Also, technologically advanced targets are expensive to acquire. Full acquisitions are affordable even by smaller DMMs with high savings or good access to loans. However, smaller EMMs, in most cases, do not have these advantages. Also because of their late mover characteristics, bigger EMMs are eager to fully acquire targets so as

to close the gap to the more established DMMs. This idea, however, does not apply to smaller EMMs. Because of their newness and their inexperience, transaction costs for smaller EMMs are relatively high even when compared to smaller DMMs (Xie, 2017). In sum, we expect that especially smaller EMMs and DMMs differ in their investment behavior. Our arguments on contrasting the size of DMMs and EMMs lead to the following hypothesis.

H2: The country-of-origin effect on the choice of partial versus full acquisitions for Japanese targets is moderated by the size of the acquiring firm, such that the tendency of EMMs to prefer partial acquisitions and that of DMMs to prefer full acquisitions is stronger for smaller firms.

The conceptual model is presented in Figure 9.

Figure 9 Conceptual model of country-of-origin effect, acquirer size, and acquisition behavior



4.5. Methodology, data, and descriptive statistics

4.5.1. Econometric model

The categorical dependent variable in our study represents partial and full acquisitions. Therefore, we employed a logistic regression analysis (Arslan & Wang, 2015; Liang et al., 2009). More specifically, we used the following model:

$$
\begin{aligned}
&Prob\ (full\ acquisitions = 1) \\
&\quad = \beta_O + \beta_1(country - of - origin * Acquirer\ size) \\
&\quad + \beta_2(country - of - origin) + \beta_3(Acquirer\ size) \\
&\quad + \beta_4(acquirer\ experience) + \beta_5(target\ size) + \beta_6(deal\ relatedness) \\
&\quad + \beta_7(cultural\ distance - UAI) + \beta_8(cultural\ distance - MAS) \\
&\quad + \beta_9(cultural\ distance - IDV) + \beta_{10}(cultural\ distance - PDI) \\
&\quad + \beta_{11}(GDP\ growth\ rate\ difference) + \beta_{12}(institutional\ distance) \\
&\quad + \beta_{13}(industry\ dummies) + \beta_{14}(year\ dummies) + \varepsilon
\end{aligned}
$$

In Model 1, we included only the control variables. In Model 2 and Model 3, we entered our focus variable (*country-of-origin*) and its interaction term (*country-of-origin * acquirer size*) respectively.

4.5.2. Dependent variable

The dependent variable, acquisition mode, took the value of one for full acquisitions, and zero for partial acquisitions. According to previous literature, a full acquisition in our study means that acquirers have 100% ownership in the target after the deal. Likewise, ownership of any percentage with less than 100% represents a partial acquisition (Lahiri et al., 2014; Liang et

al., 2009; Mariotti et al., 2014). An alternative operationalization of this variable was used in robustness checks.

4.5.3. Independent and moderating variables

Our independent variable of primary concern, *country-of-origin*, was operationalized as a dummy variable which took the value of one for EMMs and zero for DMMs. Following similar studies (Chikhouni et al., 2017; Contractor et al., 2014; Lahiri et al., 2014), we identified emerging market economy firms as classified by Hoskisson et al. (2000). The moderating variable of the acquirer size was operationalized as the natural logarithm of total assets (Chiu et al., 2018; Huang et al., 2014; Park et al., 2011; Pattnaik & Lee, 2014; Reuer & Ragozzino, 2012; Tang & Cheung, 2016).

4.5.4. Control variables

We took into account various control variables at three levels, namely firm, industry, and country level. At the firm level, we measured acquirer experience by the number of acquisitions in the target country prior to the deal (Arslan & Wang, 2015; Duarte & Garcia-Canal, 2002, 2004). Following Ahammad et al. (2017), we operationalized the target size as the natural logarithm of market value, such that market value was estimated with the following formula: transaction value/share of equity sought × 100.

At the industry level, we included deal relatedness as a dummy variable receiving a value of one if acquirers and targets were from the same industry sub-group, and zero otherwise (Dang & Henry, 2016, Santalo & Becerra, 2008). We also added industry dummy variables to control for industry fixed effects (Lahiri et al., 2014).

At the country level, we controlled for cultural distances, differences in GDP growth rate, and included institutional distances. The cultural distances were measured based on four

dimensions of Hofstede's (1980) national cultural difference index (Arslan & Wang, 2015; Demirbag et al., 2007; Lahiri et al., 2014; Liang et al., 2009; Vasudeva et al., 2018). Following Ahammad et al. (2017), we included a separate variable for each dimension of culture. Hence, *Cultural distance - PDI*, *Cultural distance - IDV*, *Cultural distance - MAS*, and *Cultural distance – UAI* correspond to power distance, individualism, masculinity and uncertainty avoidance dimensions of culture, respectively.

The *GDP growth rate difference* variable was measured as the difference in the rate of GDP growth between acquirer home economy and Japan based on a three-year average, with data ending a year before the acquisition (Lahiri et al., 2014). GDP growth rate is often used a proxy of a country's attractiveness. Difference in GDP growth rate represents how much target country is more attractive than acquirer country. Following Lahiri et al. (2014) and Contractor et al. (2014), we operationalized the *institutional distance* variable as the difference in country risk based on the World Bank's six governance indicators (Kaufmann et al., 2009) following the formula of Morosini et al. (1998). This measure was also based on a three-year average value, with data ending a year before the acquisition. Since the sample was drawn from multiple years, we also included year dummies in the regression analysis. Variables, their definitions, previous applications and data sources are shown in Table 16.

4.5.5. Data and descriptive statistics

We retrieved the M&A transactions from the Bloomberg database with the following criteria: 1. Deal represented a cross-border acquisition of a target in Japan. 2. Deal was announced in the period 2001-2018. 3. Status of deal was completed. 4. Both target and acquirer were not from the finance industry. 5. Acquirer did not have any ownership in the target prior to the transaction, and acquirer owned at least 5% after the transaction.

Table 16 Summary of variables of Study 3

Variables	*Definitions*	*Prior application*	*Data Sources*
Acquisition mode	Dummy variable which took the value of one if acquirer's ownership of the target firm equaled 100% (full acquisitions), and took 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
Institutional distance	Difference in country risk based on the World Bank's six governance indicators (Kaufmann, Kraay, & Mastruzzi, 2009) following the formula of Morosini et al. (1998).	Lahiri et al. (2014); Contractor et al. (2014)	World Bank Data
GDP growth difference	Difference in GDP growth rate between home country and Japan based on three year average data ending one year before the deal.	Liang et al. (2009)	World Bank Data
Cultural distance	Difference between home country and Japan on four dimensions of the Hofstede (1980) index. Separate variables for *PDI, IDV, MAS, UAI* corresponded to power distance, individualism, uncertainty avoidance and masculinity dimensions of culture respectively	Ahammad et al. (2017); Chari & Chang (2009)	Hofstede et al. (2010)
Deal relatedness	A dummy variable which took the value of one if acquirer and target were from same industry sub-group, and took the value of zero otherwise.	Dang & Henry (2016); Santalo & Becerra (2008)	Bloomberg data
Target size	Natural logarithm of the total assets.	Ahammad et al. 2017	Bloomberg data
Acquirer experience	Number of acquisitions preceding the current deal.	Arslan & Wang (2015); Duarte & Garcia-Canal, 2002, 2004	Bloomberg data
Acquirer size	Natural logarithm of the total assets.	Chiu et al. (2018); Huang et al. (2014); Park et al. (2011); Pattnaik & Lee (2014); Reuer & Ragozzino (2012);	Bloomberg data
Country-of-origin	A dummy variable which took the value of one for EMMs, and zero for DMMs	Chikhouni et al., 2017; Contractor et al., 2014; Lahiri et al., 2014	Hoskisson et al. (2000).

From this initial dataset, we ignored deals with multiple acquirers. Multiple acquirers at Bloomberg database means that two or more firms acquired a single target at exactly the same time. Data availability resulted in a sample of 224 deals from 22 countries. We used the classification of Hoskisson et al. (2000) and identified 7 of these countries as emerging market countries (Chikhouni et al., 2017; Contractor et al., 2014; Lahiri et al., 2014). Note that UAE is not classified by Hoskisson et al. as an emerging market (2000) nor as a developed one (Cuervo-Cazurra & Ramamurti, 2014). Hence, our final sample consisted of 7 emerging and 15 developed countries. As for other control variables, we used the World Bank data for *institutional distance* and *GDP growth rate difference*. Bloomberg "industry classification" and "industry sub-group classification" were used for industry dummies and the deal relatedness variable respectively. Out of 224 deals in our sample, 84 represented full acquisitions whereas 140 represented partial acquisitions. The number of deals originated from emerging and developed economies were 94 and 130, respectively. The correlation matrix and descriptive statistics are provided in Table 17. All VIF figures were below the stricter cutoff of 5, indicating that multicollinearity was not an issue in our analysis.

4.6. Results and robustness checks

The results of our regression analyses are provided in Table 18. Model 1 was run only with control variables. The chi-square and pseudo R-square for the base model were 49.57 and 30% respectively, showing the robustness of the model. Since the dependent variable was coded one for full acquisition and zero for partial acquisition, a significant negative coefficient of e.g. *target size* (β = -0.231, $p < 0.01$) suggests that acquirers preferred partial acquisitions when the target was bigger. The coefficient of *country-of-origin* (β = -1.904, $p < 0.05$; Model 2) suggests

that *EMMs* preferred partial acquisitions and that DMMs preferred full acquisitions. Hence, H1 is supported. The coefficient of the interaction term ($\beta = 0.429$, $p < 0.05$; Model 3) suggests that country-of-origin effect was more pronounced for smaller firms. In other words, for bigger firms, country-of-origin did not matter too much for their choice of acquisition mode. However, for smaller MNEs, the country-of-origin effect was stronger, indicating that EMMs more often preferred partial acquisitions than DMMs. This finding supported H2.

Figure 10 shows the interaction plot of country-of-origin effects with the acquirer size. Solid, dashed, and dotted line denotes the country-of-origin effect on the probability of full acquisitions at three levels of acquirer size: one standard deviation below mean, and one standard deviation above mean, respectively. The slope of the solid line is steepest in absolute terms (smaller firms), followed by the dashed line (mean), with the dotted line being flattest (bigger firms) supporting our results.

For a robustness check, we considered alternative ways of operationalizing several control variables. Our results were robust when we operationalized cultural distance by Kogut & Singh's (1988) composite index, based on the four dimensions of Hofstede's (1980) national cultural difference index (Arslan & Wang, 2015; Demirbag et al., 2007; Lahiri et al., 2014; Liang et al., 2009; Vasudeva et al., 2018). We obtained similar results when we operationalized acquirer experience as the number of years since the first investment in that country (Arslan & Wang, 2015; Chen & Hennart, 2004; Chen, 2008; Chikhouni et al., 2017; Mariotti et al., 2014; Tang & Cheung, 2016). In the same way, our findings were consistent when we replaced the difference of GDP *growth rate* by the difference in GDP *in absolute terms*.

Table 17 Descriptive statistics and correlations coefficients of Study 3

	Mean	SD	(1)	(2)	(3)	(4)	(5)
(1) Acquisition mode	0.38	0.49					
(2) Institutional distance	1.82	1.28	-0.03				
(3) GDP growth rate difference	3.45	3.15	-0.04	0.81***			
(4) Cultural distance-PDI	0.75	0.91	0.00	0.46***	0.35***		
(5) Cultural distance – IDV	1.98	1.14	0.15**	-0.42***	-0.40***	-0.28***	
(6) Cultural distance – MAS	5.08	3.64	-0.06	-0.17***	-0.13*	-0.11*	-0.33***
(7) Cultural distance – UAI	4.26	3.29	0.03	0.37***	0.37***	0.40***	-0.05
(8) Deal relatedness	0.35	0.48	-0.07	0.15**	0.15**	0.00	-0.12*
(9) Target Size	16.78	2.49	-0.16**	-0.07	-0.15**	-0.04	0.17**
(10) Acquirer experience	0.43	1.16	0.00	-0.17**	-0.20***	-0.05	0.17**
(11) Acquirer size	20.39	2.69	-0.10	0.01	-0.06	0.05	0.15**
(12) Country-of-origin	0.42	0.49	-0.10	0.57***	0.53***	0.21***	-0.57***

	(6)	(7)	(8)	(9)	(10)	(11)	
(7) Cultural distance – UAI	-0.30***						
(8) Deal relatedness	0.00	-0.02					
(9) Target Size	-0.06	-0.08	0.08				
(10) Acquirer experience	0.00	-0.12*	-0.04	0.07			
(11) Acquirer size	-0.07	-0.06	0.11	0.59***	0.24***		
(12) Country-of-origin	0.23***	-0.27***	0.09	-0.18***	-0.10	-0.11*	

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

Table 18 Main results of Study 3

	Model 1		Model 2		Model 3	
(Intercept)	-0.616		-0.425		-0.626	
	(0.975)		(1.006)		(1.01)	
Institutional distance	-0.045		0.124		-0.002	
	(0.248)		(0.266)		(0.276)	
GDP growth rate difference	0.050		0.187		0.212	
	(0.106)		(0.125)		(0.13)	
Cultural distance- PDI	0.237		0.457	*	0.537	**
	(0.215)		(0.24)		(0.249)	
Cultural distance - IDV	0.602	***	0.448	**	0.514	**
	(0.221)		(0.222)		(0.229)	
Cultural distance - MAS	0.025		0.044		0.06	
	(0.057)		(0.055)		(0.057)	
Cultural distance - UAI	-0.029		-0.21	**	-0.234	**
	(0.062)		(0.099)		(0.101)	
Deal relatedness	-0.282		-0.309		-0.227	
	(0.367)		(0.373)		(0.383)	
Target Size	-0.231	***	-0.266	***	-0.285	***
	(0.089)		(0.093)		(0.097)	
Acquirer experience	-0.106		-0.111		-0.128	
	(0.149)		(0.148)		(0.153)	
Acquirer size	-0.04		-0.049		-0.161	*
	(0.079)		(0.08)		(0.093)	
Country-of-origin			-1.904	**	-1.769	**
			(0.801)		(0.832)	
Country-of-origin * Acquirer size					0.429	***
					(0.159)	
Industry	Yes		Yes		Yes	
Year	Yes		Yes		Yes	
Pseudo R-square	30.0%		30.1%		33.6%	
Model chi-square	49.57		55.93		63.52	

Note: Binominal dependent variable is acquisition mode (partial acquisitions=0, full acquisitions=1). Standard errors are reported in parentheses. ***, **, and * represent statistical significance at 1%, 5%, and 10% level respectively.

We additionally operated with different definitions of full acquisitions. For our main results, we operationalized the dependent variable such that full acquisitions included transactions in which acquirers bought 100% of the target's shares. However, a number of studies (Chikhouni et al. 2017, Dang & Henry, 2016; Demirbag et al., 2007) consider a cut-off of

slightly smaller than 100% for full acquisitions. The underlying principle behind this approach is that equity transfer of even 90% or 95% would essentially have similar effects as a full acquisition. We re-ran the models, reducing the cut-off percentage to 95%, 90%, 85%, and even 80%. In all of the cases, the results were qualitatively similar as our main results. For the sake of brevity, we reported the results in Table 19, with 95% cut-off in Model 1 and Model 2, and that of 90% cut-off in Model 3 and Model 4.

Figure 10 Interaction plot of country-of-origin, acquirer size, and acquisition behavior

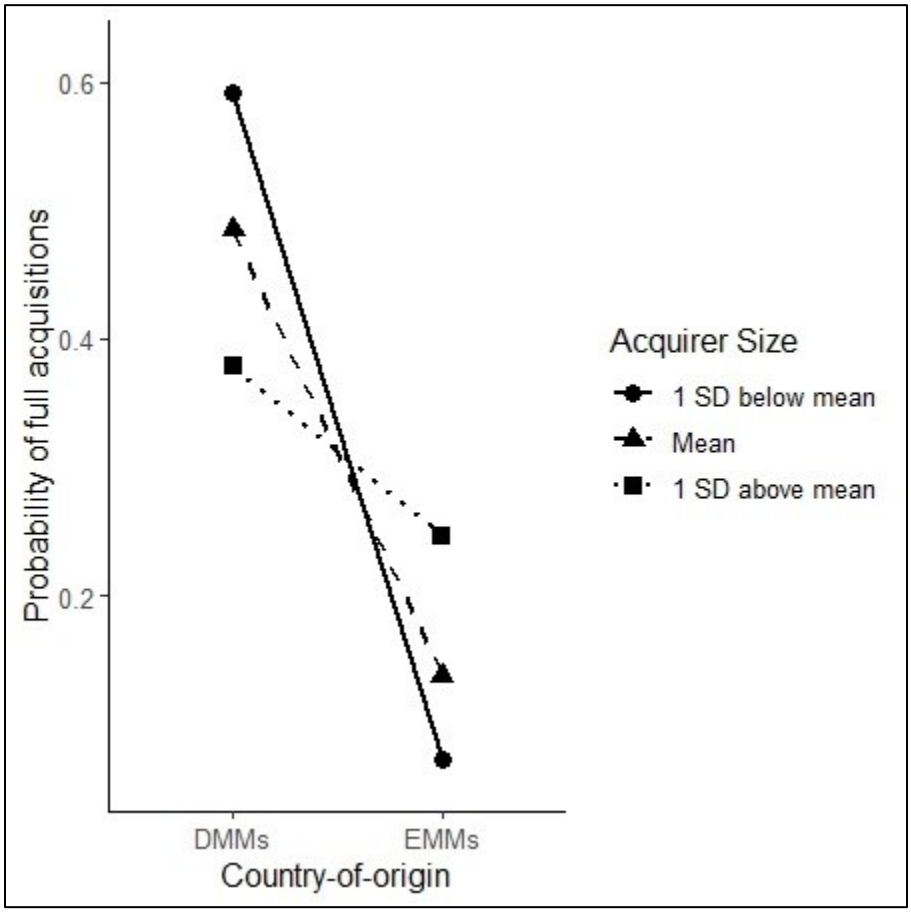


Table 19 Robustness check of Study 3

	Model 1		Model 2		Model 3		Model 4	
(Intercept)	0.261		0.046		0.590		0.433	
	(1.021)		(1.024)		(1.009)		(1.011)	
Institutional distance	0.268		0.155		0.290		0.179	
	(0.269)		(0.275)		(0.268)		(0.275)	
GDP growth rate	0.141		0.162		0.082		0.100	
difference	(0.123)		(0.127)		(0.119)		(0.121)	
Cultural distance- PDI	0.363		0.434	*	0.241		0.298	
	(0.237)		(0.243)		(0.230)		(0.235)	
Cultural distance - IDV	0.400	*	0.460	**	0.305		0.351	
	(0.218)		(0.224)		(0.209)		(0.213)	
Cultural distance - MAS	0.050		0.064		0.004		0.014	
	(0.054)		(0.056)		(0.054)		(0.055)	
Cultural distance - UAI	-0.209	**	-0.229	**	-0.171	*	-0.185	*
	(0.096)		(0.098)		(0.093)		(0.094)	
Deal relatedness	-0.387		-0.316		-0.458		-0.399	
	(0.369)		(0.377)		(0.361)		(0.367)	
Target Size	-0.287	***	-0.302	***	-0.335	***	-0.344	***
	(0.093)		(0.095)		(0.092)		(0.094)	
Acquirer experience	-0.119		-0.136		-0.118		-0.132	
	(0.149)		(0.154)		(0.149)		(0.152)	
Acquirer size	-0.027		-0.124		0.034		-0.047	
	(0.079)		(0.091)		(0.078)		(0.088)	
Country-of-origin	-2.051	***	-1.912	**	-1.935	**	-1.791	**
	(0.784)		(0.809)		(0.752)		(0.769)	
Country-of-origin *			0.380	**			0.335	**
Acquirer size			(0.158)				(0.155)	
Industry	Yes		Yes		Yes		Yes	
Year	Yes		Yes		Yes		Yes	
Pseudo R-square	29.4%		32.2%		27.5%		29.8%	
Model chi-square	54.75		60.73		51.28		56.11	

Note: Binominal dependent variable is acquisition mode (partial acquisitions=0, full acquisitions=1). Standard errors are reported in parentheses. ***, **, and * represent statistical significance at 1%, 5%, and 10% level respectively.

4.7. Discussion

We would like to highlight three important points in this section. First, prior empirical studies on entry mode focus heavily on the characteristics of MNEs undertaking cross-border expansion. This study advanced previous research by comparing two different types of acquirers, EMMs and DMMs, investing in Japan.

Second, we showed that, on average, EMMs preferred partial acquisitions whereas DMMs preferred full acquisitions when acquiring Japanese target firms. This finding is opposite to that of Lahiri et al. (2014) who contrasted country-of-origin behavior of EMMs and DMMs and their choice of partial versus full acquisitions in the context of India.

One reason for this finding could be that EMMs investing in India (an emerging market) had similar advantages as DMMs investing in developed markets (Cuervo-Cazurra & Genc, 2008; Contractor et al., 2014). Our finding that EMMs preferred partial acquisitions is supported by the springboard perspective (Luo & Tung, 2007). The authors argue that EMMs expand in developed markets primarily to acquire assets and brand names to transfer them home. They further contend that a shared-ownership entry mode such as minority joint venture is preferred for knowledge acquisition. More specifically, cooperative alliances and joint ventures are effective mechanisms to transfer tacit knowledge. Hence, this explanation predicts that EMMs would avoid full acquisitions in developed markets. Luo & Tung (2007) additionally mention that there are several challenges unique to EMMs such as poor corporate governance and a lack of global experience. Such challenges make full acquisitions a high-risk entry mode (Herrmann & Datta, 2002) and a more difficult-to-manage task for EMMs, compared to their DMM counterparts. These ideas go in line with Hennart (2012), who raises similar concerns that a lack

of resources and management skills at EMMs is arguably one reason these firms avoid establishing wholly-owned subsidiaries abroad.

Third, our finding that the country-of-origin effect is stronger for smaller acquirers (H2) is supported by the springboard perspective. As mentioned, Luo & Tung (2007) note that EMMs find difficulties in the post-integration phase due to a lack of experience and competence. That should matter much more for smaller EMMs. Luo & Tung (2007) further observe that available options to EMMs in such a situation include hiring local talent, approach leading consulting firms for training, and rotating senior executives along regional, divisional and functional lines. In fact, Wright et al. (2005) argue that smaller EMMs entering developed markets have lower margins of error due to their constrained resources.

4.8. Managerial implications, limitations, and future research directions

Our findings have some managerial implications for DMMs and EMMs planning acquisitions in a developed market. First, EMMs who plan acquisitions in developed markets should not consider full acquisition of their targets. They should not get sidetracked by the behavior of DMMs. Compared to DMMs, EMMs often lack managerial expertise required in the post-integration phase (Luo & Tung, 2007). Second, DMMs making acquisitions in developed markets should realize that a full acquisition is only an optimal solution as long as their intangible assets (such as unique technology) are not easily accessible to other firms in that host country (Hennart, 2012). Finally, firms in developed markets looking for potential buyers/partners should realize that DMMs and EMMs are considerably different in terms of their capabilities and motivation to conduct acquisitions (Luo & Tung, 2007). While bigger EMMs may have expert managerial competence and pursue acquisitions for exploitation of their intangible assets, the majority of EMMs, especially the smaller ones, make cross-border

acquisitions to lift their capabilities (Guillen & Garcia-Canal, 2009). These differences in characteristics have important implications for employees at target firms.

Our findings have to be interpreted with caution. First, we focused only on acquisitions, neglecting Greenfield investments or any other kind of contractual agreements. Second, on the target side we focused only on a single country, Japan. Additionally, as we focused only on the deals for which acquirer did not have any ownership in the target prior to the transaction, our analysis may be limited due to sample selection bias. This is because acquirers with some ownership (toehold) in the target are expected to show different acquisition behavior as compared with acquirers without any ownership in the target.

Our limitations provide intriguing avenues for future research that can focus on specific industries to leverage their unique dynamics. Guillen & Garcia-Canal (2009) mention that EMMs, depending on their home countries, tend to emerge from certain industries and not from others. More specifically, future research can focus on the financial industry to see how DMMs and EMMs differ in their choice of partial versus full acquisitions. In fact, contrary to our findings, Petrou (2007) found evidence based on a sample of banks that DMMs preferred shared-ownership, unlike EMMs which preferred to acquire banks fully. Another potential area of research is the entry mode choice of born-global firms (Guillen & Garcia-Canal, 2009). Lately, there has been an increase of born-global firms stemming from EMMs, which may provide material for case studies. Similarly, future research can address how EMMs with toehold differ in their acquisition behavior as compared with the ones without any ownership in the target prior to the deal. Moreover, future research can also leverage qualitative data and illustrative case studies to investigate EMMs' acquisition behavior.

4.9. Conclusion

In this study, we focused on differences between EMMs and DMMs for their choice of partial versus full acquisitions of targets in a developed market country, namely Japan. Additionally, we focused on the moderating effect of acquirer size on the relationship between acquirer's country-of-origin and the acquisition mode. Based on our sample of cross-border acquisitions, we found that EMMs preferred partial acquisitions whereas DMMs preferred full acquisitions. Additionally, we found an interactive effect of country-of-origin and acquirer size; the tendency of EMMs to prefer partial acquisitions was more pronounced for smaller bidders. Our findings remained consistent when additional robustness checks were applied. The authors hope that this study inspires further research on EMMs, entry mode, and cross-border acquisitions.

Chapter 5

Study 4: The effect of disaggregated formal institutional distance variables on the choice of partial versus full acquisitions

5.1. Abstract

Building on institutional theory, this study highlights the importance of disaggregating the formal institutional distance (FID) variable by using Worldwide Governance Indicators — a country-level governance data on six dimensions. We examine the effect of FID on the choice of partial versus full acquisitions made by Japanese cross-border acquirers. Our results show that out of six disaggregated FID measures, only three significantly impact the acquisition behavior. FID vis-à-vis "regulatory quality" and "control of corruption" are negatively associated with a likelihood of full acquisitions. In contrast, FID with respect to "rule of law" shows a positive effect.

Keywords: Formal institutional distance (FID), Worldwide Governance Indicators (WGI); Partial versus full acquisitions; Entry mode decision; Cross-border acquisitions; Japanese acquirers

Note: An earlier version of this study entitled "Effect of disaggregated formal institutional distance variables on the choice of partial versus full acquisitions" was presented at Conference on Interdisciplinary Business and Economics Research (CIBER), Osaka, 4th - 5th July 2019, organized by *The Society of Interdisciplinary Business Research (SIBR)* where it received the Best Paper Award.

5.2. Introduction

Interest of scholars on the role of institutional distance between home and host countries in the internationalization of firms has always been profound (Aguilera & Grogaard, 2019; Brouthers & Hennart, 2007; Hymer, 1960; Jackson & Deeg, 2019; Kogut & Singh, 1988; Kostova, Beugelsdijk, Scott, Kunst, Chua, & van Essen, 2019; Kotler, Manrai, Lascu, & Manrai, 2019; Shenkar, 2001). Institutional distance encompasses the formal and informal distance (North, 1990, 2005). While informal institutional distance is grounded in values, norms, and beliefs (Estrin, Baghdasaryan, & Meyer, 2009; Geleilate, Andrews, & Fainshmidt, 2019), formal institutional distance (FID) includes diverse aspects in a given country such as regulatory quality, corruption, political stability, ease of doing business for foreign firms, and economic risk (Fuentelsaz, Garrido, & Maicas, 2015; Geleilate et al., 2019; Orcos, Pérez-Aradros, & Blind, 2018).

Despite these diverse dimensions of FID, most studies in international business (IB) literature use them in aggregated form (Ang & Michailova, 2008; Brouthers, Brouthers, & Werner, 2003; Estrin et al., 2009; Gaur & Lu, 2007; Gölgeci, Assadinia, Kuivalainen, & Larimo, 2019; He, Brouthers, & Filatotchev, 2018; Ho, Ghauri, & Kafouros, 2019; Ho, Ghauri, & Larimo, 2018; Keig, Brouthers, & Marshall, 2019; Salomon & Wu, 2012; Tashman, Marano, & Kostova, 2019; Xu, Pan, & Beamish, 2004; Yiu & Makino, 2002). These studies justify aggregation by a high correlation among various governance dimensions, by favorable results of factor analysis, and by the argument that these indicators fall under the same broader category. However, this approach has at least two shortcomings. First, using an aggregated measure simply does not allow one to examine individual dimensions of FID. Second, using an aggregated measure of formal institutions may give biased — if not wrong — results since studies have shown that

different dimensions of formal institutions affect international business phenomena in different ways. For example, Cuervo-Cazurra & Genc (2008) examined whether least developed countries with poor formal institutions had greater prevalence of developing-country firms (with respect to developed-country firms). They analyzed formal institutions disaggregated into six dimensions where only three were found to be significant. In line with their expectation, they found that least developed countries with poor formal institutions of regulatory quality and control of corruption had greater prevalence of developing-country firms. Contrary to their expectation, least developed countries with poor formal institution of rule of law had lesser prevalence of developing country firms. One can imagine how less insightful — and potentially misleading — their results would have been if they were based on an aggregated measure of formal institutions.

Recently, there is a growing number of studies in the IB literature using disaggregated measures of formal institutions (Berry, Guillén, & Zhou, 2010; Cuervo-Cazurra & Genc, 2008; Demirbag, Glaister, & Tatoglu, 2007; Demirbag, Tatoglu, & Glaister, 2010; Ellis, Moeller, Schlingemann, & Stulz, 2017; Henisz, 2000; Jory & Ngo, 2015; Meyer & Nguyen, 2005; Shirodkar & Konara, 2017; Shirodkar, Konara, & McGuire, 2017). Careful observation shows that a major segment of these studies uses a single dataset of Worldwide Governance Indicators (WGI) for disaggregating the FID variable as it systemically divides the country-level governance into six dimensions (Cuervo-Cazurra & Genc, 2008; Ellis et al., 2017; Jory & Ngo, 2015; Shirodkar & Konara, 2017; Shirodkar et al., 2017). These six dimensions are (1) voice and accountability, (2) political stability and absence of violence, (3) government effectiveness, (4) regulatory quality, (5) rule of law, and (6) control of corruption.

Despite such efforts, only a few studies have considered the role of WGI-based disaggregated formal institutional variables on entry mode decisions (Chang, Kao, Kuo, & Chiu,

2012; Slangen & van Tulder, 2009; Williams, Martinez, Gastelaars, Galesloot, & van de Kerke, 2011; Wu, Liu, & Huang, 2012). These studies have made important contributions to IB literature, focusing on different acquirer countries such as Taiwan (Chang et al., 2012), Netherlands (Slangen & van Tulder, 2009; Williams et al., 2011), and China (Wu et al., 2012). We focus on acquisitions undertaken by Japanese firms for a number of reasons. First, there has been much previous research on Japanese cross-border acquisitions in entry mode, highlighting its importance to the academic community (Belderbos, 2003; Pease, Paliwoda, & Slater, 2006; Sartor & Beamish, 2018, 2019; Tanganelli & Schaan, 2014; Wang & Schaan, 2008; Zhang & Beamish, 2019). Second, Japan is the third largest global economy and a major home country in cross-border acquisitions (Pease et al., 2006; Tanganelli & Schaan, 2014). Third, as Japanese firms have increased their cross-border investments in recent years, it allows us to examine vast differences with respect to FID. We focused on the choice of partial versus full acquisitions as it represents a common entry mode choice that has been examined by a number of studies (Ahammad, Leone, Tarba, Glaister, & Arslan, 2017; Dikova et al., 2019; Lahiri et al., 2014; Mariotti, Piscitello, & Elia, 2014).

Furthermore, all of these entry mode studies with disaggregated WGI variables limit their scope to the absolute level of governance quality in the host country, without considering the effect of *differences* between home and host countries. Scholars have highlighted the importance of difference-based operationalization, taking into account both MNEs' experience in the home country and future operations in the host country (Contractor, Lahiri, Elango, & Kundu, 2014; Fuentelsaz, Garrido, & González, 2020; Keig et al., 2019; Lahiri, Elango, & Kundu, 2014; Malhotra & Gaur, 2014). This argument remains relevant even for studies focusing on a single home country (Berry et al., 2010; Dikova, Panibratov, & Veselova, 2019). Hence, in this study,

we extend entry mode studies by examining how differences between home and host countries for each dimension of the WGI affect the choice of partial versus full acquisitions, using a dataset of Japanese firms.

Our results indicate that the choice of partial versus full acquisitions made by Japanese acquirers is affected by only three dimensions, viz. regulatory quality, rule of law, and control of corruption. While FID with respect to regulatory quality and control of corruption correlate with a lower likelihood of full acquisitions, FID with respect to rule of law is associated with a higher likelihood of full acquisitions. These findings are consistent across our main results and four robustness checks.

This study has implications for IB literature. It corroborates earlier findings in IB literature that WGI dimensions are indeed heterogeneous (Cuervo-Cazurra & Genc, 2008; Slangen & van Tulder, 2009). Therefore, it has direct implications for studies with aggregated measures of WGI (Ahammad, Leone, Tarba, Glaister, & Arslan, 2017; Ahmed & Bebenroth, 2019a; Ang & Michailova, 2008; Contractor et al., 2014; Elango, Lahiri, & Kundu, 2013; Keig et al., 2019; Lahiri et al. 2014; Lai, Lin, & Chen, 2017). In the same way, this study has implications for other studies which used aggregated measures from other data sources such as the Index of Economic Freedom (Estrin et al., 2009; Kottaridi, Giakoulas, & Manolopoulos, 2019; Tang, 2019), the World Competitiveness Report (De Beule, Klein, & Verwaal, 2019), the Global Competitive Index (Chao & Kumar, 2010; He et al., 2018; Muralidharan & Pathak, 2017; Romero-Martínez, García-Muiña, Chidlow, & Larimo, 2019; Xu et al., 2004), or the International Country Risk Guide (Chari & Chang, 2009; Henisz, 2000; Valentino, Schmitt, Koch, & Nell, 2019; Wooster, Blanco, & Sawyer, 2016). Furthermore, extending prior entry mode studies with disaggregated WGI measures which show that absolute level of institutional

development in the host country matters (Slangen & van Tulder, 2009; Williams et al., 2011), our study highlights that the institutional distance between home and host countries is also an important consideration. Therefore, in line with previous studies, we encourage scholars to conduct future research on institutional distance (Contractor, Lahiri, Elango, & Kundu, 2014; Fuentelsaz, Garrido, & González, 2020; Keig et al., 2019; Lahiri, Elango, & Kundu, 2014; Malhotra & Gaur, 2014).

The following section presents a literature review, followed by six hypotheses. Next, the methodology is discussed. Afterwards, we present the descriptive statistics, results of logistic regression and four robustness checks. Then, the discussion, theoretical implications, future research directions, and limitations of the study are presented. The study ends with a note on managerial relevance.

5.3. Literature review and hypothesis development

5.3.1. Institutional theory and the role of formal institutions

Institutional theory describes how organizations react strategically to institutional pressure (Oliver, 1991). The actors follow a logic of social appropriateness (Aguilera and Grogaard, 2019) in order to increase their social legitimacy (Scott, 2013; Tashman et al., 2019). According to the new institutional economics, how actors behave is structured by formal institutions (comprising of established rules and laws), and informal institutions (such as norms of behavior) (North 1990). The role of formal institutions in affecting entry mode decisions has been investigated by IB scholars for decades (Brouthers & Hennart, 2007; Kostova et al., 2019). The dominant view in the literature is that the higher the external uncertainty vis-à-vis formal institutions, the higher the likelihood that multinationals prefer shared-ownership entry mode

over full-ownership entry mode (Agarwal & Ramaswami, 1992; Brouthers, 2002; Delios & Beamish, 1999; Henisz, 2000; Yiu & Makino, 2002). The majority of studies typically include both joint ventures and partial acquisitions in the shared-ownership entry mode, and both fully-owned greenfield subsidiaries and full acquisitions in the full-ownership entry mode. However, as acquisitions have become a common way of international expansion as opposed to greenfield investments (Danakol, Estrin, Reynolds, & Weitzel, 2017), recent studies increasingly focus only on acquisitions (Ahammad et al., 2017; Chari & Chang, 2009; Chikhouni, Edwards, & Farashahi, 2017; Contractor et al., 2014; Dikova et al., 2019; Lahiri et al., 2014). Authors are left with the option to include at least one explanatory variable that reflects either the absolute level of the formal institutional development (or the lack thereof) in host countries (Ahammad et al., 2017, Chikhouni et al. 2017; Chari & Chang, 2009) or the FID between host and home countries (Contractor et al., 2014; Dikova et al., 2019; Lahiri et al., 2014). In this study, we focus on the latter approach as it entails "the logic of FDI that the multinational firm bridges the *difference* between the home and host nation, with one leg in each country" (Contractor et al., 2014: 932). The importance of investigating the FID between home and host countries, rather than the absolute level of formal institutional development in the host country, is supported in prior IB literature (Berry et al., 2010; Dikova et al., 2019; Fuentelsaz et al., 2020; Keig et al., 2019 ; Malhotra & Gaur, 2014).

A review of the literature shows that most entry mode studies consider a single variable for formal institutions (Chari & Chang, 2009; Chikhouni et al., 2017; Contractor et al., 2014; Schwens, Eiche, & Kabst, 2011; Lahiri et al., 2014; Meyer, Estrin, Bhaumik and Peng, 2009; Vasudeva, Nachum, & Say, 2018). It is pertinent to mention that studies with aggregated measures often produce conflicting results. For example, Chari & Chang (2009) show that host

country formal institutional development is negatively associated with the share of equity sought in cross-border acquisitions. In contrast, Chikhouni et al. (2017), also applying an aggregate variable, arrive at an opposite conclusion. Contractor et al. (2014) show that FID is positively associated with the choice of full acquisitions over minority acquisitions (i.e., ownership less than 50%), but FID does not affect the choice of full acquisitions versus majority acquisitions (ownership in the range of 50% to 99%). Focusing on the moderating effect of acquirer's country-of-origin on the relationship between FID and acquisition choice, Lahiri et al. (2014) demonstrate that acquirers from developed countries prefer partial acquisitions in cases of greater FID between home and host country (viz. India). However, acquirers from developing countries behave differently, i.e. they prefer full acquisitions when they face greater FID. The results by Vasudeva et al. (2018) show that FDI-restrictiveness in the host country is positively associated with the likelihood of partial acquisitions. They operationalized FDI-restrictiveness based on OECD (Organization for Economic Co-operation and Development) data. This database captures statutory restrictions of foreign direct investments on four major aspects: (1) foreign equity limitation, (2) screening or approval mechanism, (3) restrictions on the employment of foreigners as key personnel, and (4) operational restrictions.

Conflicting results in entry mode studies with a single variable for formal institutions highlight the importance of disaggregating the FID variable. However, it must be noted that a fraction of entry mode studies which include multiple variables for formal institutions suffer from comparability issues as they use different data sources to measure different dimensions of formal institutions (Delios & Beamish, 1999; Demirbag et al., 2007; Demirbag et al., 2010; Dikova et al., 2019; Henisz, 2000; Meyer & Nguyen, 2005; Sartor & Beamish, 2018, 2019). Additionally, most of these studies focus only on two dimensions of formal institutions, viz.

political stability and corruption, while neglecting other important dimensions covered by the WGI, e.g., regulatory quality and rule of law. Hence, entry mode studies with a full set of all disaggregated WGI variables would provide valuable results to the IB audience (Chang et al., 2012; Slangen & van Tulder, 2009; Williams et al., 2011; Wu et al., 2012). To the best of the authors' knowledge, only four entry mode studies have used the WGI in disaggregated form. The authors come to this conclusion after screening all studies in major business and management journals where the names of all six WGI dimensions appeared. These journals are *Journal of World Business*, *International Business Review*, *Journal of International Business Studies*, *Academy of Management Journal*, *Management International Review*, *Journal of Management Studies*, *Journal of International Management*, *Journal of Management*, *Journal of Business Research*, *British Journal of Management*, *Thunderbird International Business Review*, *Strategic Management Journal*, and *Global Strategy Journal*. The authors additionally checked 226 studies where the names of all six WGI dimensions appeared along with the term "entry mode" irrespective of the publication outlet. We summarize commonly used data sources of formal institutions in the entry mode studies in Table 20, and key takeaways of entry mode studies with disaggregated WGI variables in Table 21.

5.3.2. Worldwide Governance Indicators

The Worldwide Governance Indicators (WGI) are country-level governance scores provided by the World Bank. Kaufmann, Kraay, & Mastruzzi (2007) developed these indicators and conceptualized governance as traditions and institutions by which authority (or power) in a country is exercised. The WGI have been widely used in academic research because of their extensive coverage of over 200 countries and territories

Table 20 Commonly used data sources of formal institutions in entry mode studies

Panel A: Studies with single variable for formal institutions

Study	Data source
Ahmed & Bebenroth, 2019a; Ahmed, Bebenroth, & Hennart, 2020; Ahammad et al. (2017); Ang & Michailova (2008); Contractor et al. (2014); Lahiri et al. (2014); Malhotra & Gaur (2014); Nielsen & Nielsen (2011); Xie (2014)	WGI
Vasudeva et al. (2018)	FDI restrictiveness by OECD
Chikhouni et al. (2017); Yiu & Makino (2002)	World Competitiveness Report (WCR)
Xu et al. (2004)	Global Competitiveness Report (GCR)
Schwens et al. (2011)	Hermes Country Risk Rating
López-Duarte & Vidal-Suárez (2010)	Euromoney Risk Ratings
Chari & Chang (2009); Cuypers, Ertug, & Hennart, (2015); Dow, Cuypers, & Ertug, (2016); Henisz (2000); Wooster et al. (2016)	International Country Risk Guide (ICRG)
Estrin et al. (2009); Meyer et al. (2009)	Index of Economic Freedom (IoEF)

Panel B: Studies with multiple variables for formal institutions

Study	Data source
Chang et al. (2012); Slangen & van Tulder (2009); Williams et al. (2011); Wu et al. (2012)	Six variables based on the WGI
Fuentelsaz et al. (2020)	1) Aggregate measure (IoEF) 2) Political stability (WGI)
Dikova et al. (2019)	1) Corruption perception based upon Transparency International (TI) data 2) Political stability (WGI)
Sartor & Beamish (2019)	1) Private corruption (TI) 2) Public corruption (TI) 3) FDI restrictions (IoEF) 4) Policy stability based upon Henisz's (2002) data
Sartor & Beamish (2018)	1) Petty corruption (GCR) 2) Grand corruption (GCR) 3) FDI restrictions (IoEF) 4) Degree of infrastructure development (WCR)
Lai et al. (2017)	1) Aggregated WGI measure 2) Country risk (ICRG)
Demirbag et al. (2007); Demirbag et al. (2010)	1) Political constraints (POLCON data) 2) Corruption index (TI)
Meyer & Nguyen (2005)	1) Accessibility of scarce resources (List of industrial zones in Vietnam) 2) Domination of state-owned enterprises (Statistical Handbook of Vietnam, 2000)
Henisz (2000)	1) Political Hazards (POLCON data) 2) Unexpected corruption (ICRG)
Delios & Beamish (1999)	1) Host country risk (Euromoney Risk Ratings) 2) Local ownership Restrictions (WCR) 3) Intellectual property Protection (WCR)

Table 21 Key takeaways of entry mode studies with disaggregated WGI variables

Study	Acquirer country-of-origin	Key takeaways
Slangen & van Tulder (2009)	Netherlands	Host country institutional quality is positively associated with a higher likelihood of wholly-owned subsidiary (WOS) than joint venture (JV). All the WGI dimensions yield similar results. However, the effect of "political stability" dimension is weakest in terms of both effect size and significance.
Williams et al. (2011)	Netherlands	The model with aggregated variable shows that host country institutional quality is positively associated with a higher likelihood of majority control than minority control. The model with disaggregated variables shows that only "political stability" and "government effectiveness" are significant. The former is associated with higher likelihood of majority control whereas the latter is associated with that of minority control.
Chang et al. (2012)	Taiwan	The direct effect of six dimensions is not reported. Instead, models with interaction terms of the WGI dimensions and cultural distance are reported. Hence, no interpretation of the direct effect of disaggregated WGI variables can be made.
Wu et al. (2012)	China	Host country institutional quality is positively associated with a higher likelihood of WOS than JV. All the WGI dimensions yield similar results.

In IB research, these indicators have been used as a proxy for variables such as formal institutional distance, formal institutional development, and institutional voids (Ang & Michailova, 2008; Contractor et al., 2014; Keig et al., 2019; Lahiri et al., 2014; Tashman et al., 2019). The WGI classify governance into three levels, viz. government, policy, and legal institution. The governmental level focuses on the process by which governments are selected, monitored, and replaced. At the level of policy, it focuses on the capacity of governments to effectively formulate and implement sound policies. The legal institutional level focuses on the respect of citizens and the state for institutions that govern economic and social interactions

among them. The three major levels are broken down in 6 dimensions in total. The definitions of each dimension are provided in Table 22.

Table 22 Definitions of the WGI dimensions

Levels	*Dimensions*	*Definitions*
Government	(1) Voice and accountability	The extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and a free media.
	(2) Political stability and absence of violence	The likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.
Policy	(3) Government effectiveness	The quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
	(4) Regulatory quality	The ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
Legal Institution	(5) Rule of law	The extent to which agents have confidence in and abide by the rules of society and, in particular, the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence.
	(6) Control of corruption	The extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as 'capture' of the state by elites and private interests.

Adopted from Kaufmann et al. (2007)

Since the central claim of this study is that FID should be studied in a disaggregated form for a thorough analysis (Cuervo-Cazurra & Genc, 2008), we examine all six dimensions of the WGI separately to understand better the effect of FID on the choice of partial versus full acquisitions.

5.3.3. Governmental level influence of acquisition mode

Governmental level covers two dimensions: first, voice and accountability, and second, political stability and absence of violence.

The dimension of voice and accountability relates to the degree to which people in a country are given liberty to select governments. It can be said that this dimension of governance focuses on the process of government selection. Countries with low absolute scores on this dimension denote that power in such countries stays with dictators or authoritarian regimes, whereas high absolute scores indicate the presence of a smooth democratic system (Kaufmann et al., 2007). The role of such political actors on the firm's internationalization has been discussed in a number of studies (Delios & Henisz, 2003; Chidlow, Ghauri, & Hadjikhani, 2019). Hence, a greater distance between home and host countries suggests that acquirers have to work in unfamiliar host countries and may face discriminatory institutional pressures from the government of host countries (Poynter, 2013; Yiu & Makino, 2002). For example, as Japan's score is similar to Taiwan's but distant to China's on this dimension, Japanese firms face greater uncertainties working in China. In order to deal with such external pressure of political environments, Japanese firms prefer to undertake partial acquisitions to lessen external uncertainties (Inkpen & Beamish, 1997; Makino & Delios, 1996; Xu et al., 2004). We thus present our first hypothesis:

H1: The greater the formal institutional distance vis-à-vis voice and accountability, the higher the tendency of acquiring firms to prefer partial acquisitions over full acquisitions.

The dimension of political stability and absence of violence focuses on the degree of destabilization of governments by political instability and violent means. A high absolute score on this variable suggests that the country has a lower likelihood that its government will be

overthrown (Kaufmann et al., 2007). However, also the institutional distance between home and host countries has important implications. A greater distance on this dimension between home and host country for a given deal suggests that the acquirer is not familiar with the host country's political system (Contractor et al., 2014; Lahiri et al., 2014). In fact, foreign acquirers avoid investing in politically different host countries where they do not expect to understand the system. For example, on this dimension, Japan's score is similar to Singapore's but distant to Thailand's. Hence, Japanese firms feel relatively comfortable investing in Singapore due to similarities in the working environment with respect to political stability and absence of violence. In contrast, Japanese firms investing in Thailand request more help from local partners, leaving them with a lower likelihood of full acquisitions (Inkpen & Beamish, 1997; Makino & Delios, 1996; Xu et al., 2004). Hence, we present the second hypothesis below:

H2: The greater the formal institutional distance vis-à-vis political stability and absence of violence, the higher the tendency of acquiring firms to prefer partial acquisitions over full acquisitions.

5.3.4. Policy level influence of acquisition mode

Policy level subsumes the dimensions of government effectiveness and regulatory quality. The dimension of government effectiveness focuses on the extent to which the process of policy formulation implemented in a given country is independent of the ruling government. In other words, it signifies the quality of bureaucracy and public service in a country. A high absolute score on this dimension shows the tendency of governments to refrain from using their power to influence policies (Kaufmann et al., 2007). Thus, a greater difference between host and home countries on this dimension shows that acquirers are unfamiliar with the bureaucracy and public service provisions of the host country. In such a scenario, the acquirers usually lack the

experience of dealing with the associated challenges, and have to invest on its own to cover the deficiency of public service provisions (Cuervo-Cazurra & Genc, 2008). According to institutional theory, even if host country government effectiveness is higher than that of the home country, acquirers prefer partial acquisitions as they are unfamiliar with the host country system. An example of FID with respect to government effectiveness can be seen in Japanese investments in Malaysia versus Indonesia. Japan's score is relatively similar to Malaysia's in terms of government effectiveness as compared to Indonesia's. Hence, *ceteris paribus*, Japanese firms face more uncertainties in Indonesia due to a greater difference in government effectiveness. As a result, we expect Japanese bidders to have a higher preference for partial acquisitions in countries such as Indonesia, as they expect to enlist assistance from local partners (Inkpen & Beamish, 1997; Makino & Delios, 1996; Xu et al., 2004). Hence, the third hypothesis is presented as:

H3: The greater the formal institutional distance vis-à-vis government effectiveness, the higher the tendency of acquiring firms to prefer partial acquisitions over full acquisitions.

This dimension regulatory quality corresponds directly to the promotion of private sector development. A high absolute score for this dimension indicates that the government is keen to assist local businesses through supportive policies and regulations (Kaufmann et al., 2007). The impact of pro-market institutions on firms' global strategy has long been investigated (see Cuervo-Cazurra, Gaur, & Singh, 2019, for review). A greater distance between home and host countries on this dimension signifies that acquirer is treated differently in host countries with respect to policies and regulations. In other words, firms from countries with a certain type of regulatory framework feel restricted in host countries where a different type of regulatory framework is prevalent (Contractor et al., 2014; Lahiri et al., 2014). For example, on this

dimension, Japan stands close to France but distant to India. Hence, *ceteris paribus*, Japanese firms face greater uncertainties in India and, therefore prefer partial acquisitions in India than in France (Inkpen & Beamish, 1997; Makino & Delios, 1996; Xu et al., 2004). We present our fourth hypothesis as:

H4: The greater the formal institutional distance vis-à-vis regularity quality, the higher the tendency of acquiring firms to prefer partial acquisitions over full acquisitions.

5.3.5. Legal institutional level influence of acquisition mode

Legal institutional level covers the rule of law and the control of corruption. The rule of law relates to the quality of contract enforcement, making the role of institutions such as court and police important. A low absolute score on this dimension indicates a higher likelihood of the occurrence of crime or violence in the given country. In contrast, a high absolute score on this dimension indicates that its legal institutions operate fairly (Kaufmann et al., 2007). Thus, if the host countries` legal institutions are weaker than that of home country, investors opt for partial acquisitions to avoid risky environment. Precisely, acquirers are concerned about a lack of norms prevalent in judicial systems of host countries to ensure the enforcement of contracts (Contractor et al., 2014; Lahiri et al., 2014). According to institutional theory, even when legal institutions of host country are more developed than that those of the home country, acquirers prefer partial acquisitions over full acquisitions. The reason is that acquirers do not have experience of working in similar environment, and avoid operating alone in a country with unfamiliar situation. For example, Japan's score ranks close to the United States' but distant to China's. Therefore, Japanese firms are expected to prefer partial acquisitions in China as they need more support from local business partners to deal with external uncertainties related to the rule of law (Inkpen

& Beamish, 1997; Makino & Delios, 1996; Xu et al., 2004). Hence, the fifth hypothesis is presented as:

H5: The greater the formal institutional distance vis-à-vis rule of law, the higher the tendency of acquiring firms to prefer partial acquisitions over full acquisitions.

The dimension of control of corruption addresses all forms of corruption. On a broader level, it relates to the extent to which public power is exercised for private gains. A high absolute score on this dimension signifies that firms in the country are governed fairly by economic and regulatory institutions, and in contrast, a low absolute score indicates that firms in that given country are mandated to make additional, irregular payments (Kaufmann et al., 2007).

Thus, in cases of a greater distance between home and host country on this dimension, acquirers experience a different style of economic and regulatory institutions in the host countries, and hence, their perception of uncertainty is higher (Contractor et al., 2014; Lahiri et al., 2014). Japan's score on this dimension is very high, leading acquirers to be relatively comfortable in host countries that are ranked close to Japan such as the United States, France, or Hong Kong. In contrast, Japanese firms are not prepared for countries which show a high degree of corruption such as India, China, and Thailand. Hence, *ceteris paribus,* when Japanese firms invest in countries with low scores on control of corruption, they need the help of local partners leading to a preference for partial acquisitions (Inkpen & Beamish, 1997; Makino & Delios, 1996; Xu et al., 2004). Hence our sixth hypothesis:

H6: The greater the formal institutional distance vis-à-vis control of corruption, the higher the tendency of acquiring firms to prefer partial acquisitions over full acquisitions.

5.4. Methodology

5.4.1 Data and sample

We retrieved the acquisition deals from Bloomberg database. First, we shortlisted completed cross-border deals by Japanese firms announced in the period 2010–2017 involving only publicly listed acquirers and targets. We limited the search on publicly listed acquirers and targets owing to the nature of control variables used in entry mode studies (Sartor & Beamish, 2018). Also, we chose 2010 as the starting year for data collection to focus on the behavior of Japanese firms in the post-global financial crisis era (Jean & Lohmann, 2016). The acquisition data was covered until 2017 because it was the most recent completed year at the time of data collection. This gave us an initial sample of 346 deals. From this sample, we deleted 63 deals involving firms in the finance industry. Such firms follow different accounting regulations, and therefore it is not appropriate to analyze them together with firms from industry sectors (Kim, Haleblian, & Finkelstein, 2011). Given that this study focuses on the entry mode decision, we further deleted 97 deals where acquirers subsequently increased their ownership instead of having an initial acquisition (Cuypers et al., 2015; Dow et al., 2016), reducing our sample to 186 deals. Because of data limitations on further control variables, the final sample consisted of 151 observations.

5.4.2. Econometric model

The categorical dependent variable in our study represented the choice of partial versus full acquisitions. Therefore, we employed a binary logistic regression analysis similar to the ones used in previous studies (Arslan & Wang, 2015; Dikova et al., 2019; Liang, Musteen, & Datta, 2009; Sartor & Beamish, 2018). Our binary logistic model can be represented as:

$$P(Y_i = 1) = \frac{1}{1 + \exp(-\alpha - X_i\beta)}$$

In the above model, Y_i represents the dependent variable. α represents the intercept. X_i represents the vector of independent and control variables. β represents the vector of regression parameters.

5.4.3. Dependent variable

The dependent variable, acquisition mode, took the value of one for full acquisitions, and zero for partial acquisitions. In the definition of full acquisitions, we relied on previous literature, where a full acquisition means that acquirers obtain 100% ownership in the target after the deal. Likewise, ownership of any percentage less than 100% represents a partial acquisition (Lahiri et al., 2014; Liang et al., 2009; Mariotti et al., 2014). Note that a common view in the literature is that a cutoff slightly lower than 100% (such as 90%) should be used to classify deals into partial and full acquisitions. We discuss the impact of this view on our results in the robustness tests.

5.4.4. Independent variables

The independent variables of this study are six disaggregated FID variables: (1) voice and accountability, (2) political stability and absence of violence, (3) government effectiveness, (4) regulatory quality, (5) rule of law, and (6) control of corruption. We measured these variables based on the absolute value of the difference between the WGI score of the home (Japan) and the host country on a in a given deal (Aybar & Facici, 2009; Fuentelsaz et al., 2020; Jiang, Holburn, & Beamish, 2014). We represent this measure in the equation below:

$$FID_{ij} = |WGI_{j,acquirer} - WGI_{j,target}|$$

Above, FID_{ij} represents the disaggregated FID score for *i*th deal on *j*th dimension. $WGI_{j,acquirer}$ and $WGI_{j,target}$ represent WGI score on *j*th dimension for acquirer and target country respectively. We additionally included an aggregated measure of FID in a separate model to compare the results of aggregated measure with the disaggregated ones. The aggregated measure was calculated by using the rank function built upon WGI scores of the home (Japan) and the host country in a given deal (Aybar & Facici, 2009).

$$FID_i = \frac{1}{N}\frac{1}{J}\sum_{j=1}^{J} Rank_j(FID_{ij})$$

In the above equation, FID_i represents the aggregated FID score for *i*th deal considering the sample size N (151) and number of dimensions J (6). $Rank_j(FID_{ij})$ is the rank function which assigns a rank to each observation from 1 (to the smallest value of FID_{ij}) to N (to the largest value of FID_{ij}). As mentioned, FID_{ij} represents a disaggregated FID score for *i*th deal on *j*th dimension, calculated as the absolute value of the difference between the WGI score of the home (Japan) and the host country. FID_i is bounded between 0 and 1 where higher values imply greater FID and vice versa. Moreover, for both aggregated and disaggregated measures, we based our calculations on a three-year average value prior to the year of the acquisition announcement. This method allowed us to consider the behavior of managers who based their decision on a broader trend of key variables rather than on their values in a single year (Ahmed & Bebenroth, 2019a; Ahammad et al., 2017; Chari & Chang, 2009; Waqar, 2020). We test alternative measures of aggregated and disaggregated FID variables in the robustness tests.

5.4.5. Control variables

We added several control variables into our regression at three different levels regarding firm, industry, and country. At the firm level, we controlled for the size of acquirers and targets taking the natural logarithm of total assets (Chiu, Huang, Liu, & Vasarhelyi, 2018; Huang, Jiang, Lie, & Yang, 2014; Park, Yul Lee, & Hong, 2011; Pattnaik & Lee, 2014; Reuer & Ragozzino, 2012). For acquirers, we additionally controlled for acquisition experience in the host country. Following prior studies, we operationalized acquirer experience as the number of years since their first investment in that country (Arslan & Wang, 2015; Chen & Hennart, 2004; Chen, 2008; Chikhouni et al., 2017; Mariotti et al., 2014).

At the industry level, we controlled for deal relatedness (Chari & Chang, 2009; Contractor et al., 2014; Lahiri et al., 2014). Specifically, we operationalized deal relatedness as a dummy variable which took the value of one when acquirers and targets were from the same industry sub-group (i.e. same third-level classification as per Bloomberg Industry Classification Systems, BICS), and zero otherwise (Ahmed et al., 2020; Waqar, 2020). We also added industry dummy variables to control for industry fixed effects based on the first-level BISC (Lahiri et al., 2014).

At the country level, we controlled for cultural distances between Japan and host countries by using Kogut & Singh's (1988) composite index, based on the four dimensions of Hofstede's (1980) national cultural difference index (Ang & Michailova, 2008; Arslan & Wang, 2015; Demirbag et al., 2007; Lahiri et al., 2014; Liang et al., 2009; White, Fainshmidt, & Rajwani, 2018). The data for cultural distance was obtained from Hofstede, Hofstede & Minkov (2010). We additionally controlled for the host country size. This 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). We received host country GDP figures from World Bank. As the GDP data for Taiwan could not be retrieved from the World Bank data source, we obtained necessary data from an online database (Taiwan GDP, 2018). Since the sample was drawn from multiple years, the year dummies were also included in the regression analysis.

5.5. Results and robustness checks

5.5.1. Descriptive statistics

Overall, our sample of 151 deals was representative of Japanese investments in 26 countries. In accordance with high Japanese outward FDI to the US, most of the targets in our sample were based in the United States. Other locations included South Korea, Australia, Singapore, and Taiwan representing 13, 12, 11, and 10 cases respectively. Table 23 provides a detailed overview of the host countries. Also, the number of partial and full acquisitions in our sample is 81 and 70 respectively. Descriptive statistics and the correlation matrix are provided in Table 24 and Table 25 respectively.

The correlation among disaggregates WGI variables was high, as reported in previous studies (Ang & Michailova, 2008; Berden, Bergstrand, & Van Etten, 2014). However, low variance inflation factors (VIF) figures assured us that multicollinearity was not a concern in our analysis. The highest VIF value for our study was 4.07, which was much below the threshold value of 10 (Chari & Chang, 2009). Also, the inclusion of multiple WGI dimensions into a single model is in line with a number of prior studies (Albassam, 2015; Berden et al., 2014; Brandl, Darendeli, & Mudambi, 2018; Jory & Ngo, 2015; Kwon & Kim, 2014; Munteanu, & Brezeanu, 2014; Ozturk, 2016; Williams et al., 2011; Zubair & Khan, 2014). Moreover, IB scholars

recently clarified that collinear independent variables should be analyzed in a single model for conservative results (Lindner, Puck, & Verbeke, 2020).

Table 23 Countries-of-origin of target firms of Study 4

Countries-of-origin of target firms	Number of deals for each country	Total Cases by row	Percentage
United States	44	44	29.14%
South Korea	13	13	8.61%
Australia	12	12	7.95%
Singapore	11	11	7.28%
Taiwan	10	10	6.62%
Britain	8	8	5.30%
India, Malaysia	7	14	9.27%
Thailand	6	6	3.97%
Hong Kong	5	5	3.31%
Vietnam	4	4	2.65%
France, Germany, Italy, Norway	3	12	7.95%
Canada	2	2	1.32%
Indonesia, Ireland, Israel, Kenya, Netherlands, New Zealand, Poland, South Africa, Sweden, Switzerland	1	10	6.62%

Compiled by the authors

Table 24 Descriptive statistics of Study 4

	Complete sample		Partial deals		Full deals			
	Mean	Median	Mean	Median	Mean		Median	
Formal institutional distance								
Voice and Accountability	00.50	00.32	00.64	00.38	00.35	***	00.13	***
Political Stability and Absence of Violence	00.57	00.43	00.65	00.43	00.47	**	00.39	
Government Effectiveness	00.44	00.28	00.57	00.32	00.29	***	00.14	***
Regulatory Quality	00.52	00.41	00.61	00.63	00.42	***	00.37	**
Rule of Law	00.51	00.31	00.62	00.39	00.39	***	00.30	***
Control of Corruption	00.71	00.49	00.92	00.80	00.46	***	00.28	***
Aggregated measure	00.50	00.46	00.57	00.53	00.42	***	00.36	***
Control variables								
Host country size	28.11	27.82	27.56	27.66	28.75	***	29.47	***
Culture distance	03.11	02.76	03.18	02.65	03.02		02.76	
Acquirer experience	04.62	00.00	03.05	00.00	06.43	***	04.50	***
Acquirer size	22.90	22.97	22.63	22.55	23.20	*	23.25	
Target size	18.90	18.73	18.82	18.71	18.99		18.93	
Deal relatedness	00.19	00.00	00.19	00.00	00.20		00.00	

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

5.5.2. Results of logistic regression

The results of our regression analysis are presented in Table 26. Model 1 was run only with control variables. *Host country size* and *acquirer size* variables were significant. Since the dependent variable was coded 1 for full acquisitions and 0 for partial acquisitions, a significant positive coefficient of the *acquirer size* variable suggested that large acquirers tended to prefer full acquisitions. Furthermore, deals involving targets located in countries with high GDP are more likely to be full acquisitions, as shown by a significant positive coefficient of the variable *host country size*.

Table 25 Correlation matrix of Study 4

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dependent variable							
(1) Acquisition mode							
Formal institutional distance							
(2) Voice and accountability	-0.26***						
(3) Political stability and absence of violence	-0.16*	0.42***					
(4) Government effectiveness	-0.29***	0.69***	0.71***				
(5) Regulatory quality	-0.23***	0.69***	0.53***	0.72***			
(6) Rule of law	-0.24***	0.70***	0.76***	0.88***	0.74***		
(7) Control of corruption	-0.37***	0.68***	0.72***	0.90***	0.60***	0.89***	
(8) Aggregated measure	-0.35***	0.79***	0.70***	0.85***	0.75***	0.88***	0.91***
Control variables							
(9) Host country size	0.36***	-0.71**	-0.20**	-0.54***	-0.48***	-0.49***	-0.60***
(10) Culture distance	-0.07	0.56	-0.01	0.15*	0.33***	0.09	0.11
(11) Acquirer experience	0.26***	-0.33	-0.11	-0.25***	-0.30***	-0.27***	-0.32***
(12) Acquirer size	0.15*	-0.04	0.01	0.04	0.06	0.06	-0.01
(13) Target size	0.05	-0.10	-0.03	0.01	0.03	-0.05	-0.11
(14) Deal relatedness	0.02	-0.05	0.01	-0.09	-0.1	-0.04	-0.06

	(8)	(9)	(10)	(11)	(12)	(13)	
Control variables							
(9) Host country size	-0.71***						
(10) Culture distance	0.31***	-0.41***					
(11) Acquirer experience	-0.42***	0.55***	-0.17**				
(12) Acquirer size	0.01	-0.01	0.06	0.32***			
(13) Target size	-0.05	0.08	0.09	0.33***	0.36***		
(14) Deal relatedness	-0.06	0.04	0.00	0.00	-0.18**	0.06	

In Model 2 (Table 26), we entered the aggregated FID measure. This variable was not statistically significant (β = -1.04, p = *ns*). However, in line with our contention regarding the importance of disaggregating the FID variable, we obtained several significant results when we

disentangled the six dimensions of FID (Model 3). We additionally compared Model 2 and Model 3 by conducting the Vuong non-nested test (Vuong, 1989). The results showed that Model 3 was significantly better than Model 2 at the 1% level, lending support to our central argument that the FID variable should be disaggregated in order to detect meaningful contribution of each dimension.

The first three dimensions of the FID were not significant. Hence, H1, H2, and H3 were not supported. In accordance with our expectations, larger differences in "regulatory quality" (β = -2.23, $p < 0.10$) and "control of corruption" (β = -3.48, $p < 0.05$) were associated with a higher likelihood of partial acquisitions. Hence, H4 and H6 received support. However, in contrast to our expectations, larger differences in "rule of law" (β = 3.09, $p < 0.10$) were associated with a higher likelihood of full acquisitions. While a statistically significant association was obtained, the direction was contrary to our expectations. Hence, H5 was not supported.

5.5.3. Robustness checks

We conducted four robustness checks in this study. In our first robustness test, we operationalized the aggregated and disaggregated measures of FID by using alternate distance formulas adopted from Kogut & Singh (1988). Specifically, the aggregated FID variable was operationalized based on the Kogut & Singh index as represented in the equation below:

$$FID_i = \frac{1}{4}\sum_{j=1}^{4}\frac{(WGI_{j,acquirer} - WGI_{j,target})^2}{V_j}$$

Above, FID_i represents the aggregated FID score for *i*th deal. $WGI_{j,acquirer}$ and $WGI_{j,target}$ represent WGI score on *j*th dimension for acquirer and target country respectively. V_j represents the variance of *j*th dimension.

Table 26 Main Results of Study 4: The effect of WGI-based disaggregated FID variables on the choice of partial versus full acquisitions

	Model 1		Model 2		Model 3	
Formal institutional distance						
Voice and Accountability					0.68	
					(1.00)	
Political Stability and Absence of Violence					0.52	
					(0.68)	
Government Effectiveness					0.56	
					(1.33)	
Regulatory Quality					-2.23	*
					(1.23)	
Rule of Law					3.09	*
					(1.61)	
Control of Corruption					-3.48	**
					(1.39)	
Aggregated measure			-1.04			
			(1.36)			
Control variables						
Host country Size	0.64	***	0.55	***	0.30	
	(0.17)		(0.20)		(0.25)	
Culture distance	0.22		0.23		0.17	
	(0.18)		(0.18)		(0.24)	
Acquirer experience	-0.02		-0.02		-0.01	
	(0.04)		(0.04)		(0.05)	
Acquirer size	0.24	*	0.24	*	0.21	
	(0.13)		(0.13)		(0.15)	
Target size	-0.09		-0.09		-0.11	
	(0.14)		(0.14)		(0.15)	
Deal relatedness	0.22		0.19		-0.12	
	(0.51)		(0.51)		(0.55)	
(Intercept)	-2.05		-1.91		-2.12	**
	(0.95)		(0.97)		(1.02)	
Year dummies	Yes		Yes		Yes	
Industry dummies	Yes		Yes		Yes	
Pseudo R square	35.79%		36.17%		42.39%	

The dependent variable takes the value of 1 for full acquisitions and 0 for partial acquisitions. Standard errors are reported in the parentheses. ***, **, and * represent statistical significance at 1%, 5% and 10% level respectively.

To make our disaggregated FID score comparable to those of the aggregated ones, we used the following distance formula to calculate the disaggregated FID scores (Ahmed & Bebenroth, 2019a; Ahammad et al., 2017; Chari & Chang, 2009):

$$FID_{ij} = \frac{(WGI_{j,acquirer} - WGI_{j,target})^2}{V_j}$$

Above, FID_{ij} represents the disaggregated FID score for *i*th deal on *j*th dimension. $WGI_{j,acquirer}$ and $WGI_{j,target}$ represent WGI score on *j*th dimension for acquirer and target country respectively. V_j represents the variance of *j*th dimension.

In our second robustness test, we used percentile scores of countries to calculate FID. This operationalization was aimed at measuring the difference between the *ranks* of the countries instead of the differences between their estimated scores (Russell & Gray, 1994). In our third robustness test, we defined partial acquisitions as those in which the acquirer took a stake in the range of 10 to 90% (Demirbag et al., 2007). The idea behind this operationalization is that investments smaller than 5 or 10% rather serve as financial investments and hence can be safely ignored. Similarly, a share greater than 90% (such as 92% or 95%) may in fact be treated as a full acquisition (Dang & Henry, 2016). For our fourth robustness test, we conducted a step-wise backward elimination regression process based on Akaike information criterion (AIC), Bayesian information criterion (BIC), and p-value criterion (Zubair & Khan, 2014). In a backward elimination procedure, we start off by having all relevant variables, and eliminate the non-important variables one-by-one based on certain criteria until only the important predictors remain in the model. In all of these cases, the results were qualitatively similar to our main results. The results of the robustness tests are reported in Tables 27 to Table 30.

Table 27 Robustness check 1: Aggregated and disaggregated FID variables based on alternate distance formulas

	Model 1		Model 2		Model 3	
Formal institutional distance						
Voice and Accountability					0.75	
					(0.55)	
Political Stability and Absence of Violence					-0.01	
					(0.32)	
Government Effectiveness					0.18	
					(1.11)	
Regulatory Quality					-2.93	**
					(1.43)	
Rule of Law					2.90	*
					(1.51)	
Control of Corruption					-2.02	**
					(0.97)	
Aggregated measure			-0.29			
			(0.27)			
Control variables						
Host country Size	0.64	***	0.56	***	0.36	
	(0.17)		(0.18)		(0.23)	
Culture distance	0.22		0.21		0.13	
	(0.18)		(0.18)		(0.23)	
Acquirer experience	-0.02		-0.02		-0.03	
	(0.05)		(0.04)		(0.05)	
Acquirer size	0.24	*	0.25	*	0.24	
	(0.13)		(0.14)		(0.15)	
Target size	-0.09		-0.11		-0.06	
	(0.14)		(0.14)		(0.15)	
Deal relatedness	0.22		0.21		-0.09	
	(0.51)		(0.51)		(0.54)	
(Intercept)	-2.05	**	-2.02	**	-2.43	**
	(0.95)		(0.96)		(1.06)	
Year dummies	Yes		Yes		Yes	
Industry dummies	Yes		Yes		Yes	
Pseudo R square	35.79%		36.53%		43.68%	

Note: The dependent variable takes the value of 1 for full acquisitions and 0 for partial acquisitions. Standard errors are reported in the parentheses. ***, **, and * represent statistical significance at 1%, 5% and 10% level respectively.

Table 28 Robustness check 2: FID variables based on percentile scores of countries

	Model 1		Model 2		Model 3	
Formal institutional distance						
Voice and Accountability					0.03	
					(0.04)	
Political Stability and Absence of Violence					0.04	
					(0.03)	
Government Effectiveness					0.03	
					(0.07)	
Regulatory Quality					-0.10	*
					(0.06)	
Rule of Law					0.20	***
					(0.08)	
Control of Corruption					-0.21	***
					(0.07)	
Aggregated measure			-1.04			
			(1.36)			
Control variables						
Host country Size	0.64	***	0.54	***	0.42	*
	(0.17)		(0.21)		(0.25)	
Culture distance	0.22		0.22		0.00	
	(0.18)		(0.18)		(0.25)	
Acquirer experience	-0.02		-0.02		-0.01	
	(0.04)		(0.04)		(0.05)	
Acquirer size	0.24	*	0.24	*	0.19	
	(0.13)		(0.13)		(0.16)	
Target size	-0.09		-0.09		-0.11	
	(0.14)		(0.14)		(0.15)	
Deal relatedness	0.22		0.20		-0.08	
	(0.51)		(0.51)		(0.56)	
(Intercept)	-2.05	**	-1.92		-2.30	**
	(0.95)		(0.97)		(1.07)	
Year dummies	Yes		Yes		Yes	
Industry dummies	Yes		Yes		Yes	
Pseudo R square	35.79%		36.17%		46.11%	

Note: The dependent variable takes the value of 1 for full acquisitions and 0 for partial acquisitions. Standard errors are reported in the parentheses. ***, **, and * represent statistical significance at 1%, 5% and 10% level respectively.

Table 29 Robustness check 3: Partial acquisitions defined as those in which the acquirer takes a stake in the range of 10 to 90%

	Model 1		Model 2		Model 3	
Formal institutional distance						
Voice and Accountability					1.14	
					(1.08)	
Political Stability and Absence of Violence					0.23	
					(0.80)	
Government Effectiveness					-0.07	
					(1.45)	
Regulatory Quality					-2.32	*
					(1.39)	
Rule of Law					3.95	**
					(1.82)	
Control of Corruption					-3.03	*
					(1.62)	
Aggregated measure			1.30			
			(1.61)			
Control variables						
Host country Size	0.75	***	0.87	***	0.65	**
	(0.20)		(0.25)		(0.30)	
Culture distance	0.23		0.23		0.18	
	(0.19)		(0.19)		(0.27)	
Acquirer experience	-0.04		-0.03		-0.04	
	(0.05)		(0.05)		(0.05)	
Acquirer size	0.18		0.18		0.11	
	(0.14)		(0.14)		(0.16)	
Target size	-0.09		-0.09		-0.04	
	(0.16)		(0.16)		(0.18)	
Deal relatedness	0.44		0.47		0.09	
	(0.56)		(0.57)		(0.62)	
(Intercept)	-1.94	*	-2.09	*	-1.97	*
	(1.11)		(1.13)		(1.18)	
Year dummies	Yes		Yes		Yes	
Industry dummies	Yes		Yes		Yes	
Pseudo R square	41.33%		41.83%		47.82%	

Note: The dependent variable takes the value of 1 for full acquisitions and 0 for partial acquisitions. Standard errors are reported in the parentheses. ***, **, and * represent statistical significance at 1%, 5% and 10% level respectively.

Table 30 Robustness check 4: Step-wise backward elimination regression

	Model 1		Model 2		Model 3	
Elimination criteria	Not applicable		AIC		BIC/p-value	
Formal institutional distance						
Voice and Accountability	0.68					
	(1.00)					
Political Stability and Absence of Violence	0.52					
	(0.68)					
Government Effectiveness	0.56					
	(1.34)					
Regulatory Quality	-2.23	*	-1.82	**	-1.79	**
	(1.23)		(0.78)		(0.77)	
Rule of Law	3.09	*	3.76	***	3.93	***
	(1.61)		(1.23)		(1.22)	
Control of Corruption	-3.48	**	-3.34	***	-3.43	***
	(1.39)		(0.78)		(0.77)	
Control variables						
Host country Size	0.30					
	(0.25)					
Culture distance	0.17					
	(0.24)					
Acquirer experience	-0.01					
	(0.05)					
Acquirer size	0.21		0.17			
	(0.15)		(0.11)			
Target size	-0.11					
	(0.15)					
Deal relatedness	-0.12					
	(0.55)					
(Intercept)	-2.12	**	-0.24		-0.23	
	(1.02)		(0.19)		(0.19)	
Year dummies	Yes		Eliminated		Eliminated	
Industry dummies	Yes		Eliminated		Eliminated	
Pseudo R square	42.39%		29.35%		27.49%	

Note: The dependent variable takes the value of 1 for full acquisitions and 0 for partial acquisitions. Model 1 in this table is the reproduction of Model 3 from Table 26. Model 2 and Model 3 in this table are step-wise backward elimination models. The criterion for Model 2 was AIC. Results from BIC and p-value (either 5% or 10% level) criteria were identical and are reported in Model 3. Standard errors are reported in the parentheses. ***, **, and * represent statistical significance at 1%, 5% and 10% level respectively.

5.6. Discussion

Grounded in institutional theory, this study disaggregated the FID variable by using WGI data and found the merits of disaggregation, as contended in the economics literature (Albassam, 2015; Arndt & Oman, 2006; Berden et al., 2014; Kaufmann et al., 2007; Kwon & Kim, 2014; Zubair & Khan, 2014). Our results are aligned with a number of IB studies which report heterogeneous effects of disaggregated WGI variables on acquirer returns (Ellis et al., 2017; Jory & Ngo, 2015), adoption of global intellectual property protection standards (Brandl et al., 2018), subsidiary performance (Shirodkar & Konara, 2017), lobbying expenditure incurred by MNEs (Shirodkar et al., 2017) and IPO activity (Gupta, Veliyath, & George, 2018).

Comparing our results with prior entry mode studies which used disaggregated WGI variables, we confirm that not all dimensions of the WGI affect the entry mode decision homogenously. Williams et al. (2011) note that only two dimensions of the WGI, namely political stability and government effectiveness, affect the choice of shared-ownership entry mode versus full-ownership entry mode. Similarly, Slangen & van Tulder (2009) conclude that host country governance quality vis-à-vis political instability is relatively less important in affecting the entry mode choice than other WGI dimensions. In the same way, our analysis of Japanese outbound acquisitions shows that also the differences between home and host countries with respect to the last three dimensions of WGI are important to consider. Interestingly, our results also resemble closely to those of Cuervo-Cazurra & Genc (2008) who found that the very same dimensions of governance were significantly related with their dependent variable. Our results have three similarities with those of Cuervo-Cazurra & Genc (2008): (1) the first three dimensions of WGI are insignificant, (2) the fourth and sixth dimensions are significant — as

hypothesized, and (3) the fifth dimension is significant — but in the opposite direction as hypothesized.

Our hypotheses were built upon the basic tenets of institutional theory that FID increases the acquirer's external uncertainty as they experience a new environment (Contractor et al., 2014; Lahiri et al., 2014). Hence, they prefer working with local partners by opting for partial acquisitions (Inkpen & Beamish, 1997; Makino & Delios, 1996; Xu et al., 2004). Our results support this argument of external uncertainty for the two dimensions of governance, viz. regulatory quality and control of corruption. However, the unexpected results for the dimension of rule of law with regard to H5 could be due to the fact that a greater FID for this dimension represents a case of higher internal uncertainty rather than that of external uncertainty. This is probably why the result for this dimension was significant, but not in the direction we had predicted it to be. Hence, instead of opting for partial acquisition, the preference was for full acquisition. Slangen & van Tulder (2009) made a similar argument for the role of cultural distance between home and host countries in influencing a firm's entry mode choice. To be more specific, our argument for H5 that partial acquisitions allow acquirers to enlist the help of local partners in dealing with external issues, e.g., court cases involving suppliers or customers might be more strongly related with the *external* aspects of uncertainty. However, in such a scenario, working with local partners may also increase internal uncertainty because local partners can behave opportunistically knowing that foreign acquirers will have difficulty in dealing with the court, etc. Stated differently, acquirers expecting greater uncertainty with respect to judicial systems of host countries may fear opportunistic behavior from local partners, and hence prefer full acquisitions to avoid conflicts with them.

5.7. Theoretical implications, future research directions, and limitations

This study extends previous research in IB providing several theoretical implications. First, prior IB studies with disaggregated WGI variables show that *absolute level of institutional development* in the host country significantly affects entry mode decision (Slangen & van Tulder, 2009; Williams et al., 2011). On the tenets of institutional theory, our study shows that disaggregated formal institutional *distance* variables are also important predictors of the choice of partial versus full acquisitions. Second, we show that FID should be examined in disaggregated form by using WGI (Albassam, 2015; Berden et al., 2014; Cuervo-Cazurra & Genc, 2008; Kwon & Kim, 2014; Zubair & Khan, 2014). Our findings raise questions over the reliability of previous studies which used aggregated measures for FID. For example, Ang & Michailova (2008) showed that their variable of formal institutions of host countries (measured as an aggregated variable from the six WGI dimensions) was insignificant in 2 out of their 3 models. We imagine that their dependent variable could have been affected by any dimension of the formal institutional variable when measured in a disaggregated form.

Like in all other studies, the results of this study need to be interpreted in light of its limitations. First, our data collection was limited to acquirers from one single country, Japan. Japanese managers might be more sensitive to uncertain situations than managers in other countries. Second, as in almost all other studies in this field, we used only publically listed firms in our sample owing to the nature of data limitations. Third, we did not use qualitative data such as questionnaires or interviews in this study. Fourth, our FID variables were based on the dominant conceptualization of institutional distance whereby distance is assumed to be symmetric in either direction (Shenkar, 2001). This is a common criticism related to the concept of institutional distance which applies to almost all empirical studies in the IB literature (Ang &

Michailova, 2008; Aybar & Facici, 2009; Chari & Chang, 2009; Fuentelsaz et al., 2020; Jiang, Holburn, & Beamish, 2014; White, Fainshmidt, & Rajwani, 2018). Recently, empirical studies have started to consider institutional direction as well i.e. whether an acquirer invests in institutionally more developed countries or less developed countries compared than its own (Hernandes, 2015; Konara & Shirodkar, 2018; Rabbiosi & Santangelo, 2019). These factors limited the generalizability and richness of our findings. Nevertheless, the objective of this study was to show that WGI-based disaggregated FID variables significantly affect the choice of partial versus full acquisitions — what is supported by our main results and a series of robustness tests. Thus, our study opens multiple avenues for future research. Scholars could focus on whether WGI-based disaggregated FID variables affect other IB-related phenomena such as the choice of strategic alliances (Ang & Michailova, 2008), knowledge acquisition (Ho et al., 2018; Ho et al., 2019), or subsidiary survival (Gaur & Lu, 2007; Peng & Beamish, 2019).

5.8. Managerial relevance

This study has important implications for managers. First, it shows that disaggregated WGI scores are meaningful to discover. Although managers may prefer aggregate measures of WGI for the sake of simplicity, we advise them to use disaggregate WGI scores as they bring much more precision and diligence in the analysis.

Second, managers should understand that the first three indicators of WGI do not affect entry mode choice with respect to partial and full acquisitions. In contrast, differences in regulatory quality and indicators related to legal institutional level (namely, rule of law and control of corruption) significantly affect whether firms choose partial or full acquisitions. Thus, our results show that Japanese managers give less importance to differences in formal institutions vis-à-vis political and governmental aspects. Instead, they focus on indicators that

have direct economic implications (such as regulatory quality), and consider indicators related to legal institutional level (rule of law and control of corruption).

Third, this study further clarifies that out of the three dimensions of FID that affect entry mode choice, not all dimensions affect the entry mode choice in the same direction. Precisely, greater distances with respect to regulatory quality and that of control of corruption prompt managers to prefer partial acquisitions over full acquisitions. This is in line with the view that a greater institutional distance between home and host countries leads the acquirer to seek help from the local partner in the host country. In contrast, greater distances vis-à-vis rule of law encourage managers to prefer partial acquisitions over full acquisitions. This shows that acquirers prefer higher control in uncertain legal environments.

Chapter 6

Conclusion

6.1. Summary of thesis

This section presents the summary of the thesis in the light of its research questions. The first two research questions are related to Study 1. First and foremost, the thesis was concerned with whether the size of the Japanese acquiring firm, an important contingent variable in the strategy literature, is related to full or partial acquisition (RQ1a). This thesis shows that large Japanese acquirers are more likely to prefer a full acquisition over a partial acquisition than small Japanese acquirers. The second research question is related to whether consistent strategy Japanese firms and flexible strategy Japanese firms have different acquisition behavior (RQ1b). The results do not provide any evidence that there is any difference in the acquisitions behavior between consistent strategy Japanese firms and flexible strategy Japanese firms for the overall sample. The results however do show that for small-sized Japanese acquirers, flexible strategy firms are more likely to engage in partial acquisitions whereas consistent strategy firms are more likely to conduct full acquisitions.

The next three research questions (RQ2a, RQ2b, and RQ2c) have been answered in Study 2. RQ2a deals with whether Japanese prospectors and Japanese defenders differ in their acquisition mode choice. The results show that Japanese prospectors prefer full acquisitions whereas Japanese defenders prefer partial acquisitions. RQ2b is that whether Japanese analyzers and Japanese defenders have different acquisition behavior. The results show that Japanese analyzers are more likely to prefer a full acquisition over a partial acquisition than Japanese

defenders. RQ2c deals with whether Japanese prospectors and Japanese analyzers have significant differences in their acquisition mode choice. The results show that prospectors and analyzers do not have significant differences in their acquisition mode choice.

The next two research questions (RQ3a and RQ3b) are related with Study 3. RQ3a concerns whether EMMs and DMMs making cross-border investments in Japan have significantly different acquisition behavior. The results show that DMMs are more likely to conduct a full acquisition than a partial acquisition as compared to EMMs. RQ3b deals with whether the relationship between country-of-origin (EMMs versus DMMs) and acquisition mode choice is stronger for smaller firms. The results show that indeed the difference in acquisition behavior between EMMs and DMMs is more pronounced for smaller firms.

The last two research questions (RQ4a and RQ4b) have been dealt in study 4. RQ4a concerns with whether the disaggregated formal institutional distance variables affect the acquisition mode choice for Japanese cross-border acquirers? Regarding the first three dimension of Worldwide Governance Indicators (WGI), the results do not find evidence in support of a significant relationship between formal institutional distance and acquisition mode choice undertaken by Japanese cross-border acquirers. However, regarding the regularity quality dimension and the control of corruption dimension, the results show that when formal institutional distance is high, Japanese cross-border acquirers are more likely to prefer partial acquisitions over full acquisitions. Regarding the rule of law dimension, the results show that when formal institutional distance vis-à-vis regularity quality is high, Japanese cross-border acquirers are more likely to prefer full acquisitions over partial acquisitions. RQ4b deals with whether the disaggregated formal institutional distance variables better explain differences in acquisition mode choice (partial versus full acquisitions) than the aggregated formal institutional

distance variable, for Japanese cross-border acquirers. The results show that although the aggregated formal institutional distance variables is not significantly related with the choice of partial versus full acquisitions, several significant relationships are present between disaggregated formal institutional distance variables and the choice of partial versus full acquisitions for Japanese cross-border acquirers. Also, the results of Vuong non-nested test confirm that the econometric model with disaggregated formal institutional distance variables better explain the variation in the dependent variable than the model with the aggregated formal institutional distance variable.

6.2. Theoretical implications of the thesis

In this section, I summarize the contributions of this thesis to six theories, perspectives, or theoretical literatures.

6.2.1. Resource-based view of the firm (RBV)

Resource-based view of the firm (RBV) suggests that larger firms may prove to be more competitive than small firms because of greater resources in hand. For example, Moeller et al. (2004) showed that acquirer size mattered for returns. Study 1 found that size also mattered for cross-border acquiring firms in explaining the effect of strategy on the choice of either partial or full acquisitions. Interestingly, Moeller et al. (2004) base their findings on theoretical grounds that large size acquirers are associated with a greater hubris and a greater agency dilemma. Study 1 further support Agarwal and Ramaswami results (1992) showing that large firms prefer sole investments over joint ventures to gain greater control over targets.

Moreover, Study 1 shows that for the sub-sample of small Japanese acquirers, strategy flexibility is positively associated with the likelihood of partial acquisitions. This finding is in

line with the central idea of Harrigan (1985), who found that while a vertical integration has numerous benefits, it increases exit barriers for acquirers with a flexible strategy (Harrigan, 1985). Similarly, Study 1 supports the view that small Japanese acquirers with a consistent strategy prefer full acquisitions (Harrigan, 1985). In other words, consistent strategy firms focus on specializing on certain types of business, choosing targets that are expected to remain relevant for a considerable period of time. These firms do not face the issue of exit barriers. Hence, they would prefer full acquisition over partial acquisition. Indeed, analysis in Study 1 shows that this effect is true only for small Japanese acquirers. This conditional relationship makes intuitive sense because exit barriers are higher for small firms. Supporting the resource-based view, small Japanese acquirers – ceteris paribus – face more serious issues of constrained resources than large Japanese firms do.

For large Japanese acquirers, Study 1 shows that strategy had a reduced impact on their acquisition behavior. This is probably due to large Japanese firms emphasizing rather industry developments or governmental changes when making investments. The impact of strategies and managerial discretion is greatest at the organizational founding of a firm (Boeker, 1989; Stinchcombe, 1965), and it decreases as firms grow in size (Anwar and Hasnu, 2017). In other words, as firms grow in size, strategic choices available to the firm become limited as other external factors become more important (Thomas and Ramaswamy, 1996).

6.2.2. Transaction cost economics theory (TCE)

TCE helps us understand why firms either internalize (performing tasks internally) or externalize (favoring market-based) transactions. Focusing on the Miles and Snow strategy typology and entry mode choices, Liang et al. (2009) showed that prospectors are more likely to get affected by partner opportunism compared to defenders. In line with their results, we found

that Japanese prospectors are more likely to prefer full acquisitions over partial acquisitions. Extending their results, Study 2 shows that Japanese analyzers are also more likely to prefer full acquisitions than Japanese defenders. Further comparing prospectors and analyzers, Study 2 shows that Japanese prospectors and Japanese analyzers are alike in their acquisition behavior. Study 2 has important implications for TCE. For example, it shows that the risk of partner opportunism faced by Japanese prospectors and Japanese analyzers is significantly higher than that by Japanese defenders. Also, the risk of partner opportunism faced by Japanese prospectors and Japanese analyzers is essentially the same.

6.2.3. Strategic capability perspective

Strategic capability perspective focuses on tangible and intangible capabilities of the firms (Amit and Schoemaker, 1993; Madhok, 1997). Liang et al. (2009) contended that prospectors and defenders possessed different types of capabilities resulting in opposite preferences with respect to shared versus full-ownership entry mode. Precisely, prospectors have higher tacit knowledge, decentralized structures, and more knowledgeable people than defenders. In the same way, analyzers' level is also significantly higher than that of defenders. However, the comparison of Japanese analyzers and Japanese prospectors in Study 2 shows that the level of complexity in the tacit knowledge and decision structures held by Japanese analyzers and Japanese prospectors is essentially the same.

6.2.4. Strategic cognition perspective

Strategic cognition perspective relates to how managers filter and interpret strategic issues (Bundy et al., 2013). On a micro-level, this perspective focuses on the profile of managers and their risk appetite. Liang et al. (2009) compared prospectors and defenders from this perspective and argued (and found empirical support) for the view that prospectors are led by

young individuals with higher risk tolerance and therefore are more willing to prefer full acquisitions. Study 2 also confirms the findings of Liang et al. (2009). Study 2 additionally compares acquisition mode choice of (1) Japanese analyzers and Japanese defenders, and (2) Japanese analyzers and Japanese prospectors, premised on the risk appetite of the managers involved in the decision-making perspective. The results support the view that the risk tolerance of Japanese analyzers is significantly higher than that of Japanese defenders. However, interestingly, the risk appetite of Japanese analyzers and Japanese prospectors is essentially the same since both have similar preference for acquisition mode choice.

6.2.5. Emerging market multinationals (EMMs) versus developed market multinationals (DMMs)

Study 3 shows that EMMs are more likely to prefer partial acquisitions than DMMs for Japanese cross-border targets. This finding is opposite to that of Lahiri et al. (2014) who contrasted country-of-origin behavior of EMMs and DMMs and their choice of partial versus full acquisitions in the context of India. One reason for this finding could be that EMMs investing in India (an emerging market) had similar advantages as DMMs investing in developed markets (Cuervo-Cazurra & Genc, 2008; Contractor et al., 2014). However, the finding in Study 3 that EMMs preferred partial acquisitions for Japanese cross-border targets is supported by the springboard perspective (Luo & Tung, 2007). Luo & Tung (2007) argued that EMMs expand in developed markets primarily to acquire assets and brand names to transfer them home. They further contend that a shared-ownership entry mode such as minority joint venture is preferred for knowledge acquisition. More specifically, cooperative alliances and joint ventures are effective mechanisms to transfer tacit knowledge. Hence, this explanation predicts that EMMs would avoid full acquisitions in developed markets such as Japan. Luo & Tung (2007)

additionally mention that there are several challenges unique to EMMs such as poor corporate governance and a lack of global experience. Such challenges make full acquisitions a high-risk entry mode (Herrmann & Datta, 2002) and a more difficult-to-manage task for EMMs, compared to their DMM counterparts. These ideas go in line with Hennart (2012), who raises similar concerns that a lack of resources and management skills at EMMs is arguably one reason these firms avoid establishing wholly-owned subsidiaries abroad.

Springboard perspective supports another finding of Study 3 that the country-of-origin effect is stronger for smaller acquirers. As mentioned, Luo & Tung (2007) note that EMMs find difficulties in the post-integration phase due to a lack of experience and competence. That should matter much more for smaller EMMs. Luo & Tung (2007) further observe that available options to EMMs in such a situation include hiring local talent, approach leading consulting firms for training, and rotating senior executives along regional, divisional and functional lines. In fact, Wright et al. (2005) argue that smaller EMMs entering developed markets have lower margins of error due to their constrained resources.

6.2.6. Institutional theory

The results in Study 4 provide some interesting comparison with the prior literature built on institutional theory. For example, if we compare the results in Study 4 with prior entry mode studies which used disaggregated WGI variables, we see a similarity that not all dimensions of the WGI affect the entry mode decision homogenously. Williams et al. (2011) noted that only two dimensions of the WGI, namely political stability and government effectiveness, affect the choice of shared-ownership entry mode versus full-ownership entry mode. Similarly, Slangen & van Tulder (2009) concluded that host country governance quality vis-à-vis political instability is relatively less important in affecting the entry mode choice than other WGI dimensions. In the

same way, the analysis in Study 4 of Japanese outbound acquisitions shows that also the differences between home and host countries with respect to the last three dimensions of WGI are important to consider. Interestingly, these results also resemble closely to those of Cuervo-Cazurra & Genc (2008) who found that the very same dimensions of governance were significantly related with their dependent variable. The results in Study 4 have three similarities with those of Cuervo-Cazurra & Genc (2008): (1) the first three dimensions of WGI are insignificant, (2) the fourth and sixth dimensions are significant — as hypothesized, and (3) the fifth dimension is significant — but in the opposite direction as hypothesized.

The hypotheses in Study 4 were built upon the basic tenets of institutional theory that FID increases the acquirer's external uncertainty as they experience a new environment (Contractor et al., 2014; Lahiri et al., 2014). Hence, they prefer working with local partners by opting for partial acquisitions (Inkpen & Beamish, 1997; Makino & Delios, 1996; Xu et al., 2004). The results support this argument of external uncertainty for the two dimensions of governance, viz. regulatory quality and control of corruption. However, the unexpected results for the dimension of rule of law with regard to H5 of the study could be due to the fact that a greater FID for this dimension represents a case of higher internal uncertainty rather than that of external uncertainty. This is probably why the result for this dimension was significant, but not in the direction it was hypothesized. Hence, instead of opting for partial acquisition, the preference was for full acquisition. Slangen & van Tulder (2009) made a similar argument for the role of cultural distance between home and host countries in influencing a firm's entry mode choice. To be more specific, the argument for H5 of Study 4 that partial acquisitions allow acquirers to enlist the help of local partners in dealing with external issues, e.g., court cases involving suppliers or customers might be more strongly related with the external aspects of

uncertainty. However, in such a scenario, working with local partners may also increase internal uncertainty because local partners can behave opportunistically knowing that foreign acquirers will have difficulty in dealing with the court, etc. Stated differently, acquirers expecting greater uncertainty with respect to judicial systems of host countries may fear opportunistic behavior from local partners, and hence prefer full acquisitions to avoid conflicts with them.

6.3. General conclusion

This thesis was aimed at examining how firms decide between partial and full acquisitions in their cross-border investments involving Japanese acquirers or targets. Specifically, I examined how the acquisition mode choice is affected by four factors: (1) strategic consistency/flexibility, (2) business strategy based on Miles and Snow typology (viz. defenders, analyzers, and prospectors), (3) country-of-origin (viz. emerging country firms versus developed country firms), and (4) disaggregated institutional distance variables. Each of these factors was examined in a separate study. In the first study, the results show that acquirer size is positively associated with the likelihood of full acquisitions for Japanese cross-border acquirers. Moreover, strategy flexibility is positively associated with the likelihood of partial acquisitions, albeit only for small Japanese acquirers. The second study showed that Japanese prospectors and Japanese analyzers are both more likely to prefer full acquisitions over partial acquisitions as compared to Japanese defenders. Additionally, Japanese prospectors and Japanese analyzers do not differ significantly in their acquisitions behavior. The third study showed that when entering Japan, DMMs are more likely to undertake full acquisitions than EMMs for their Japanese cross-border targets. Moreover, this phenomenon is stronger for small-sized Japanese acquirers. The fourth and last study examined how the acquisition mode choice of Japanese cross-border acquirers is affected by formal institutional distance variables as measured by Worldwide

Governance Indicators: (1) voice and accountability, (2) political stability and absence of violence, (3) government effectiveness, (4) regulatory quality, (5) rule of law, and (6) control of corruption. The results show that the first three dimensions are not significantly related with the acquisition mode choice. The fourth and sixth dimensions are negatively associated with the likelihood of full acquisitions. In contrast, the fifth dimension is positively associated with the likelihood of full acquisitions. Theoretically, the thesis draws on and contributes to resource-based view of the firm (in Study 1), transaction cost economics, strategic capability perspective and strategic cognition perspective (in Study 2), theoretical literature on EMMs versus DMMs (in Study 3), and institutional theory (in Study 4) in examining the choice of partial versus full acquisitions for Japanese cross-border acquisitions.

Appendix

The following table provides acquirer name, announcement year, assigned Miles and Snow strategy and acquirer industry subgroup for all observations of Study 2.

S. No.	Acquirer Name	Announcement year	Miles and Snow Strategy	Acquirer Industry Subgroup
1	Dentsu Inc	2012	Analyzer	Advertising Services
2	Dentsu Inc	2014	Analyzer	Advertising Services
3	Sumitomo Precision Products Co Ltd	2012	Analyzer	Aerospace/Defense-Equip
4	Nidec Sankyo Corp	2012	Analyzer	Audio/Video Products
5	Panasonic Corp	2016	Analyzer	Audio/Video Products
6	Toyota Industries Corp	2012	Analyzer	Auto/Trk Prts&Equip-Orig
7	Toyota Motor Corp	2012	Analyzer	Auto-Cars/Light Trucks
8	Kirin Holdings Co Ltd	2013	Analyzer	Brewery
9	NTT DOCOMO Inc	2012	Analyzer	Cellular Telecom
10	Asahi Kasei Corp	2012	Analyzer	Chemicals-Diversified
11	Asahi Kasei Corp	2015	Analyzer	Chemicals-Diversified
12	Kuraray Co Ltd	2014	Analyzer	Chemicals-Diversified
13	Mitsubishi Chemical Holdings Corp	2012	Analyzer	Chemicals-Diversified
14	Sumitomo Chemical Co Ltd	2016	Analyzer	Chemicals-Diversified
15	Nomura Research Institute Ltd	2016	Analyzer	Computer Services
16	Nomura Research Institute Ltd	2017	Analyzer	Computer Services
17	TDK Corp	2015	Analyzer	Computers-Memory Devices
18	TDK Corp	2015	Analyzer	Computers-Memory Devices
19	Transcosmos Inc	2013	Analyzer	Data Processing/Mgmt
20	Brother Industries Ltd	2015	Analyzer	Electric Products-Misc
21	Hitachi Ltd	2012	Analyzer	Electric Products-Misc
22	MINEBEA	2012	Analyzer	Electronic Compo-Misc

	MITSUMI Inc			
23	MINEBEA MITSUMI Inc	2013	Analyzer	Electronic Compo-Misc
24	Murata Manufacturing Co Ltd	2012	Analyzer	Electronic Compo-Misc
25	Murata Manufacturing Co Ltd	2014	Analyzer	Electronic Compo-Misc
26	Nitto Kogyo Corp	2017	Analyzer	Electronic Compo-Misc
27	Omron Corp	2015	Analyzer	Electronic Compo-Misc
28	Toshiba Corp	2012	Analyzer	Electronic Compo-Misc
29	Toshiba Corp	2012	Analyzer	Electronic Compo-Misc
30	Yokogawa Electric Corp	2016	Analyzer	Electronic Measur Instr
31	Mirait Holdings Corp	2016	Analyzer	Engineering/R&D Services
32	Ezaki Glico Co Ltd	2012	Analyzer	Food-Confectionery
33	Nissin Foods Holdings Co Ltd	2016	Analyzer	Food-Misc/Diversified
34	Recruit Holdings Co Ltd	2015	Analyzer	Human Resources
35	Recruit Holdings Co Ltd	2015	Analyzer	Human Resources
36	ITOCHU Corp	2014	Analyzer	Import/Export
37	Mitsubishi Corp	2015	Analyzer	Import/Export
38	Mitsubishi Corp	2017	Analyzer	Import/Export
39	Mitsui & Co Ltd	2016	Analyzer	Import/Export
40	Mitsui & Co Ltd	2016	Analyzer	Import/Export
41	Mitsui & Co Ltd	2016	Analyzer	Import/Export
42	Media Kobo Inc	2015	Analyzer	Internet Content-Entmnt
43	Hitachi Construction Machinery Co Ltd	2016	Analyzer	Machinery-Constr&Mining
44	Hitachi Ltd	2015	Analyzer	Machinery-Electric Util
45	Mitsubishi Electric Corp	2015	Analyzer	Machinery-Electric Util
46	Takara Bio Inc	2016	Analyzer	Medical-Biomedical/Gene
47	Astellas Pharma Inc	2015	Analyzer	Medical-Drugs
48	Daiichi Sankyo Co Ltd	2014	Analyzer	Medical-Drugs
49	Mitsubishi Tanabe Pharma Corp	2017	Analyzer	Medical-Drugs
50	Nichi-iko	2013	Analyzer	Medical-Drugs

	Pharmaceutical Co Ltd			
51	Nichi-iko Pharmaceutical Co Ltd	2013	Analyzer	Medical-Drugs
52	Nichi-iko Pharmaceutical Co Ltd	2016	Analyzer	Medical-Drugs
53	Otsuka Holdings Co Ltd	2014	Analyzer	Medical-Drugs
54	Sumitomo Dainippon Pharma Co Ltd	2016	Analyzer	Medical-Drugs
55	Taisho Pharmaceutical Holdings Co Ltd	2016	Analyzer	Medical-Drugs
56	Takeda Pharmaceutical Co Ltd	2017	Analyzer	Medical-Drugs
57	Hanwa Co Ltd	2014	Analyzer	Metal Products-Distrib
58	Canon Inc	2015	Analyzer	Office Automation&Equip
59	FUJIFILM Holdings Corp	2015	Analyzer	Photo Equipment&Supplies
60	Konica Minolta Inc	2014	Analyzer	Photo Equipment&Supplies
61	Konica Minolta Inc	2016	Analyzer	Photo Equipment&Supplies
62	Nikon Corp	2015	Analyzer	Photo Equipment&Supplies
63	ABC-Mart Inc	2012	Analyzer	Retail-Apparel/Shoe
64	Tokyo Electron Ltd	2012	Analyzer	Semiconductor Equipment
65	Tokyo Electron Ltd	2012	Analyzer	Semiconductor Equipment
66	Daido Steel Co Ltd	2014	Analyzer	Steel-Specialty
67	Mitsui Sugar Co Ltd	2012	Analyzer	Sugar
68	Nisshinbo Holdings Inc	2015	Analyzer	Telecommunication Equip
69	SoftBank Group Corp	2012	Analyzer	Telephone-Integrated
70	SoftBank Group Corp	2015	Analyzer	Telephone-Integrated
71	Toray Industries Inc	2013	Analyzer	Textile-Products
72	Toray Industries Inc	2013	Analyzer	Textile-Products
73	Yamato Holdings Co Ltd	2016	Analyzer	Transport-Truck
74	Furukawa Battery Co Ltd/The	2016	Defender	Auto/Trk Prts&Equip-Repl
75	Asahi Glass Co Ltd	2016	Defender	Bldg Prod-Doors&Windows

76	Toray Industries Inc	2017	Defender	Chemicals-Specialty
77	TDK Corp	2016	Defender	Computers-Memory Devices
78	TDK Corp	2016	Defender	Computers-Memory Devices
79	Taisei Lamick Co Ltd	2016	Defender	Containers-Paper/Plastic
80	Innotech Corp	2013	Defender	Distribution/Wholesale
81	Nippon Gas Co Ltd	2012	Defender	Distribution/Wholesale
82	NH Foods Ltd	2016	Defender	Food-Meat Products
83	Komatsu Ltd	2016	Defender	Machinery-Constr&Mining
84	Mitsui Mining & Smelting Co Ltd	2015	Defender	Metal-Diversified
85	Canon Inc	2016	Defender	Office Automation&Equip
86	I'rom Group Co Ltd	2013	Defender	Phys Practice Mgmnt
87	Toppan Printing Co Ltd	2016	Defender	Printing-Commercial
88	Renesas Electronics Corp	2016	Defender	Semicon Compo-Intg Circuits
89	Kyoei Steel Ltd	2017	Defender	Steel-Producers
90	Nippon Telegraph & Telephone Corp	2014	Defender	Telephone-Integrated
91	CAC Holdings Corp	2013	Prospector	Computers-Integrated Sys
92	CAICA Inc	2012	Prospector	Computers-Integrated Sys
93	Chori Co Ltd	2012	Prospector	Distribution/Wholesale
94	DA Consortium Inc	2012	Prospector	E-Marketing/Info
95	Nexon Co Ltd	2012	Prospector	Entertainment Software
96	Persol Holdings Co Ltd	2017	Prospector	Human Resources
97	Mitsubishi Corp	2014	Prospector	Import/Export
98	Mitsui & Co Ltd	2012	Prospector	Import/Export
99	Sumitomo Corp	2012	Prospector	Import/Export
100	Sumitomo Corp	2013	Prospector	Import/Export
101	Sumitomo Corp	2016	Prospector	Import/Export
102	Toyota Tsusho Corp	2012	Prospector	Import/Export
103	Topcon Corp	2015	Prospector	Medical Instruments
104	Otsuka Holdings Co Ltd	2013	Prospector	Medical-Drugs
105	Hanwa Co Ltd	2012	Prospector	Metal Products-Distrib

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