Emerging Market MNCs' Cross-Border Acquisition Completion: Institutional Image and Strategies

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Abstract: This study investigates the negative effect of the home country's institutional image on emerging-market multinational companies' acquisitions, and how these companies can increase their acquisition completion by overcoming this effect. We propose that a foreign acquisition is more likely to be completed if: (1) the acquirer has an extended home base - it has inward internationalization experience, or it acquires through overseas subsidiaries; and (2) it enters institutionally close markets. Using longitudinal data on 13,259 acquisitions between 1996 and 2012 by firms from ten major emerging economies, we empirically test our hypotheses. The findings have important implications for scholars, policymakers and managers.

Key words: emerging-market multinational company, institutional image, foreign acquisition completion, country of origin, home base, FDI location

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INTRODUCTION

Emerging markets (EMs) have become not only major foreign direct investment (FDI) recipients but also important contributors of 39% of the global FDI outflow (UNCTAD 2014b), forming a critical element of global economic recovery from the recent downturn as well as growth (Sauvant et al. 2010). Multinationals from these markets conducted 56% of world cross-border mergers and acquisitions (M&As) (UNCTAD 2014b), as exemplified by several high-profile overseas takeovers as developed-economy multinational companies (MNCs) divested during the recent economic crisis, such as the purchase by Petronas (Malaysia) of Progress Energy Resources Corp. (Canada) for US$5.4 billion, the acquisition by Sinopec Group (China) of Petrogal Brasil Ltda. (Brazil) for US$4.8 billion and the purchase of Energias de Portugal SA (Portugal) by China Three Gorges Corp. (China) for US$3.5 billion (UNCTAD 2013).

As a major leapfrog trajectory (Luo and Tung 2007), acquisitions are EM multinational companies' (EMNCs) favorite FDI mode (Buckley et al. 2014). However, their overseas acquisitions achieve less success than the global average (Peng 2012), despite tending to bid higher (Hope et al. 2010). Explaining the drivers of M&As by EMs and their outcomes perform a critical task in increasing the understanding of today's international investment landscape (Li et al. 2016b). Past M&A research has mainly focused on factors that lead to post-acquisition performance, and thus pays very limited attention to how acquisitions are completed (Dikova et al. 2010; Li et al. 2016b). In this paper, we focus on EMNCs' international acquisition completion, following a growing literature (e.g. Dikova et al. 2010; Li et al. 2016b).

Acquisition completion is very important as the first step in M&A. As Dikova et al. (2010) note, although in some particular cases, it might be more beneficial to terminate an acquisition deal than to proceed with a purchase that could cause dramatic future losses, most firms usually strive for ultimate deal completion. According to Li et al. (2016b), there are at least three reasons for acquirers to complete an acquisition deal rapidly. First, the acquiring firm bears upfront costs in identifying targets, choosing advisors on legal, finance and accounting issues, and releasing important information about its strategies for acquisition. Second, it also incurs opportunity costs by forgoing other acquisition opportunities. Third, abandoning the deal constitutes a breach of contract and can result in heavy penalties and damage to the firm's reputation and creditability.

Most prior studies have drawn on factors from the finance, corporate governance and management literature to investigate acquisition phenomena in the context of developed countries. For example, these studies have documented a number of factors with impacts on acquisition completion, such as target company size (Hoffmeister and Dyl 1981), target management resistance to acquisition (Holl and Kyriazis 1996), managerial ownership (O'Sullivan and Wong 1998), deal structure (Branch et al. 2008), termination fees (Calcagno and Falconieri 2014; Officer 2003), information asymmetry between acquirers and targets (Dikova et al. 2010; Muehlfeld et al. 2012), and state ownership of acquirers (Li et al. 2016b).

Despite these advancements, the literature still sees a few gaps. First, the research on the very important influence of institutional environments, which FDI is subject to, is still in its emergence (Peng et al. 2008). According to institutional theory, firms' activities and outcomes are influenced substantially by the institutional environments in which they are embedded (North 1990; Peng 2003). International acquisitions involve multiple parties across borders, and attract the attention

of institutional stakeholders. More insights from institutional theory (Dikova et al. 2010; Zhang et al. 2011) are pivotal in solving the puzzle of global FDI.

Second, our knowledge of EMNCs' acquisitions and the reason for their low completion rate is very limited. Research has shown their disadvantages in international business, for example, a lack of famous brand names, superior technology and managerial experience (He et al. 2013; Wang et al. 2014). EMNCs also tend to be victims of a negative national and institutional image (Bartlett and Ghoshal 2000; Child and Tsai 2005; Cuervo-Cazurra and Ramamurti 2015; Luo and Tung 2007; Moeller et al. 2013). Institutional image is a stereotype-driven attribute that links the organization to positive and/or negative emotional associations with its home country and institutions (Chattalas et al. 2008). Although there has been acknowledgement of this effect, there has no formal theorization and empirical analysis of acquisition completion. Home country image can influence positively or negatively the perceptions of stakeholders in a host country (Diamantopoulos et al. 2017; Kostova and Zaheer 1999; Moeller et al. 2013; Zaheer and Zaheer 2005), which we suggest in turn influence the ease/difficulty with which foreign investors gain legitimacy in host countries, thus impacting acquisition completion. For example, as the European Union Chamber of Commerce noted, European companies would opt to be taken over by other European/US companies rather than Chinese ones (China Daily 2014). Given their increasingly important role in global FDI, whether EMNCs suffer the negative effects of institutional image in international takeovers and how they can overcome this effect to increase their overseas acquisitions remain unanswered.

Third, the reactions of EMNCs to the institutional image effect are also less understood. Organizations respond to external pressures to increase legitimacy for business success (Peng et al. 2008). Facing doubts and concerns in host countries, EMNCs can choose to do a number of

things to offset the institutional liability that they carry. However, the current literature has not provided much in this regard.

Drawing on the strategic response theme of institutional theory (Barney et al. 2001; Peng 2003) and the springboard perspective (Luo and Tung 2007), we fix these gaps by exploring the effects of EMNCs' institutional image and their strategies to address it for acquisition completion, and we provide implications for policymakers in home and host countries, as well as researchers and managers. We propose two strategies after checking the solutions that are controllable by EMNCs and that EMNCs adopt to address the poor home country institutional image to enhance acquisition completion, representing the most basic goal in international acquisitions (Muehlfeld et al. 2012), namely, their home base (Zhou and Guillén 2015) and FDI location. The rationale is that a poor home country image-evoking EMNC can adjust host country perceptions to mitigate negative emotions and social pressures in the host country by expanding its home base and carefully choosing its FDI location. First, EMNCs can extend their home base (Zhou and Guillén 2015) to increase their international reputations and experience, generate collaborative networks, and improve their institutional images. This strategy consists of two methods. EMNCs can develop international experience and reputation through inward internationalization learning with foreign players (Child and Rodrigues 2005)and can also establish subsidiaries in foreign countries to conduct international purchasing. Second, they can choose institutionally similar countries as their acquisition targets (68% of the acquisitions in EMs were from other EMs (UNCTAD 2014a)).

This research contributes to the literature in three ways. First, it enriches the institutional image literature (e.g. Kostova and Zaheer 1999; Moeller et al. 2013; Zaheer and Zaheer 2005) by examining its effects on foreign acquisition completion, which has been an ignored area in

research (Dikova et al. 2010). Expanding into other countries, MNCs confront the liabilities of being foreign. Their home countries' institutional images form additional cognitive and normative challenges from local investors, regulators, consumers and other stakeholders for foreign organizations in gaining legitimacy (Chattalas et al. 2008; Kostova and Zaheer 1999; Li et al. 2016b; Scott 1995). The simplified perception of EMNCs, especially in more developed countries, can be negative, given EMNCs' shortage of critical resources (He et al. 2013; Wang et al. 2014) and their home countries' institutional voids (Luo and Tung 2007). This institutional image creates additional difficulty for EMNCs in completing overseas takeovers. As a fresh attempt, we address this knowledge gap by empirically testing the influence of institutional image on EMNCs' acquisition outcomes.

Second, this study expands the EMNC FDI literature by theorizing and testing how EMNCs address the liability of institutional image to increase foreign acquisition completion. Noting the serious institutional image effect, prior research has not addressed this effect on FDI from EMs, especially overseas purchases of businesses, or the solutions by EMNCs to overcome the liability of institutional image. Thus, this research represents a valuable effort to shed light on this line of enquiry, adding to the institutions and EMNC FDI literature. It also adds to the acquisition performance literature, which has been largely limited to post-acquisition or post-merger outcomes and not completion (Buckley et al. 2014; Dikova et al. 2010; Zhang and He 2014). Therefore, it could provide meaningful performance implications and normative value for researchers and managers.

Third, this work extends the recent "home base" perspective (Zhou and Guillén 2015). This "home base" perspective suggests that the home base, a combination of the countries where a firm accumulates operational experience, provides a better prediction of firm-internationalizing

behaviors than does the home country. However, this concept suffers from shortcomings. For example, it overlooks the knowledge/experience that a firm can develop via inward internalization (e.g., exporting and outsourcing, OEM, and joint ventures) and that foreign partners transfer to and share with it (Child and Rodrigues 2005). Our research extends the home base perspective by considering and incorporating these factors into the construct, offering a more complete analysis of the role of the home base in firms' international expansion.

THEORY AND HYPOTHESES

EMs have become important contributors to global FDI (UNCTAD 2014b). Multinationals from EMs favor foreign acquisition over greenfield as an entry mode (Luo and Tung 2007; Peng 2012; UNCTAD 2014a; b) because the former provides rapid ownership of sought strategic assets or entry to new markets (Buckley et al. 2014; Wang et al. 2014). However, their overall acquisition completion rate is less than the global average (Peng 2012). There are multiple reasons for the relatively low likelihood of completion.

Generally, international acquisitions are risky because the completion can be influenced by the target volume (Hoffmeister and Dyl 1981), target management resistance (Holl and Kyriazis 1996), managerial ownership (O'Sullivan and Wong 1998), deal structure (Branch et al. 2008), termination fees (Calcagno and Falconieri 2014; Officer 2003), and information asymmetry between acquirers and targets (Dikova et al. 2010; Muehlfeld et al. 2012).

International acquisitions have been particularly associated with challenges due to the "liability of foreignness" (Eden and Miller 2004). This challenge refers to differences in institutional forces, including national culture, customer preferences, and business practices; they are exacerbated impediments to MNC legitimacy (Kostova and Zaheer 1999) and to successful acquisition and

realization of strategic objectives (Aybar and Ficici 2009). The acquirer's lack of experience with implementing acquisitions, organizational inertia in absorbing the target, and prior absence in the target country may inhibit the benefits of acquisition and the confidence of stakeholders in the target country. Additionally, misidentification of asset complementarities, complications in target assessment, and informational asymmetries may also have adverse effects on purchase success (Dikova et al. 2010). These challenges cause serious problems with acquisition completion and post-acquisition integration.

There are reasons that are specific to EMNCs as well. From an internal perspective, EMNCs are known to have poor governance and accountability (Luo and Tung 2007), and they lack famous brand names and superior technology (He et al. 2013; Wang et al. 2014). Their disadvantages partly originate from EMNCs and their home countries' late entry into international competition (Wang et al. 2012). EMNCs lack the critical international experience and managerial competence needed to organize global activities as well as professional expertise in functional areas, such as international accounting, finance, marketing, and law. A home country's underdeveloped strategic factor markets also constrain both an EM firm's access to managerial expertise and its ability to develop sophisticated technologies, build global brands, and organize complex manufacturing operations (Tolentino 2010; Wang et al. 2012). As a result, many EMNCs find that international expansion via acquisitions does not readily translate into value (Aybar and Ficici 2009).

In the following sections, we develop the hypotheses (summarized in Figure 1), where H1 depicts the effects of institutional image on foreign acquisition completion and H2-4 show the effects of inward internationalization experience and acquisition through overseas subsidiaries and institutional distance.

INSERT FIGURE 1 ABOUT HERE

Institutional Images and Acquisition Completion

From an external perspective, EMNCs tend to be victims of a negative institutional image (Herz and Diamantopoulos 2013b; Luo and Tung 2007; Moeller et al. 2013) or discrimination effects (Cuervo-Cazurra and Ramamurti 2015). This trait is stereotype driven and emotional and associates an organization with its home country and institutions (Chattalas et al. 2008; Diamantopoulos et al. 2017). As Diamantopoulos et al. (2017) and Herz and Diamantopoulos (2013a) note, stereotypical perceptions form an oversimplified and generalized set of beliefs about the characteristics of a nation and its members, through which country-level categorization is established to reflect perceptions about the typical features the country possesses.

Institutional image is a part of country image. Its effect, in the form of country-of-origin (COO) effect, has been addressed in the marketing literature (e.g., Balabanis and Diamantopoulos 2004; Diamantopoulos et al. 2017; Herz and Diamantopoulos 2013a; b). In marketing, country image refers to the picture, reputation and stereotype that businessmen and consumers attach to products of a specific country under the influence of representative products, national characteristics, economic and political background, history and traditions (Nagashima 1970). A COO effect represents the influence or bias on product evaluation, risk perception, buying intention, etc. based on COO information and stereotypes (Herz and Diamantopoulos 2013a). The concern is whether the “foreignness” of products/brands render them less preferable to customers in different countries due to consumer ethnocentrism, the holders of which tend to show higher levels of domestic bias and to be less favorably disposed toward foreign products (Balabanis and

Diamantopoulos 2004). Empirical studies have indicated robust support for such an effect (Peterson and Jolibert 1995).

The application of COO has been extended from products to people and organizations in international contexts. For example, Zaheer and Zaheer (2005) ascertain that based on stereotyping, certain nationalities might be trusted to greater or lesser extents in certain countries. Kostova and Zaheer (1999) suggest that organizations can face "legitimacy spillovers" from their COO - from perceptions of the legitimacy of the institutional context in which they are embedded and of other organizations to which they are seen to be related or connected. In the context of international acquisition, this relationship means that buyers from certain countries might be perceived as more or less legitimate in a specific country, depending on the overall legitimacy of the COO of the international acquirer in the target country (Zaheer and Zaheer 2005). Although scholars such as Li et al (2016b) have suggested that this effect is rooted in the influence of the culture and institutions of the home country, their focus is on how this effect influences MNCs' activities, rather than how it is perceived by stakeholders in the international environment. Because institutional frameworks are the key forces that impact firms' behaviors and outcomes in international business (Peng et al. 2008), in this paper, we focus on the impact of institutional image, which is defined as the picture, reputation and stereotype that stakeholders attach to organizations of a specific country that carry domestic heritage, or "liabilities of origin", under the influence of national background, especially institutional characteristics (Bartlett and Ghoshal 2000; Kostova and Zaheer 1999). Like COO (Sharma 2011), institutional image has normative associations such that a positive evaluation of organizations from a certain country might be perceived as endorsement of its policies, practices, and actions, and *vice versa*.

The institutional image perceptions of local entities, such as investors, regulators, consumers and other stakeholders, form a part of the host country's institutional environment that foreign firms confront (Chattalas et al. 2008; Scott 1995; Sharma 2011). According to North (1991, p. 97), institutions are formal and informal "humanly devised constraints that structure political, economic and social interactions". Institutions consist of three pillars: regulative, cognitive and normative (Scott 1995). Multinational firms face divergent local institutional, economic and cultural conditions in host countries. The differences in institutions between home and host countries create international firms' liability of foreignness (Zaheer 1995). For firms from EMs that expand into international markets, one form of the liability of foreignness is the local stereotyped perception of their characteristics in the form of an institutional image effect. Firm reputation is one of the informal institutional constraints on MNCs (Dikova et al. 2010). The institutional image is both a cognitive process and a normative process (Chattalas et al. 2008; Scott 1995; Sharma 2011). The perceptions that EMNCs receive from host countries, especially developed countries, can be more or less passive, exerting additional pressure on these organizations (Luo and Tung 2007). From institutional thinking, an institutional image effect can be due to the stereotyping of the host country as a simplified means in cognitive psychology of addressing a lack of information about the foreign entity by categorizing based on cognitive structures, such as schemas and stereotypes (Diamantopoulos et al. 2017). According to Kostova and Zaheer (1999, p. 73-74), the host country's legitimating environment often has less information to assess a foreign entity, resulting in suspicion and scrutiny of the latter, also leading to the use of stereotypical assessments that can arise from long-established, taken-for-granted assumptions in the host environment regarding this entity from a particular home country.

With the expansion into overseas markets, the institutional image of an organization's home country can influence its acceptance by host country stakeholders, that is, the public, competition, customers, business partners, etc. (Zaheer and Zaheer 2005). Institutional image is a badge representing the investing firm's background/history to host country stakeholders, signaling favorable or unfavorable information (Moeller et al. 2013). This effect will influence not only EMNCs' after-entry operations (Wang 2013) but also their pre-acquisition processes. Investing organizations may not be welcomed by local people and/or businesses in addition to the difficulties caused by gaps in understanding cultural variations present in the external and internal environments or the liability of foreignness (Moeller et al. 2013). The predisposition of a host country's constituents toward acquisitions by foreign companies due to their institutional images can exert positive or negative effects on takeover success.

Consumers in developed markets perceive products and brands from less-developed countries negatively and equate them with low quality and price (Aulakh et al. 2000). Moreover, investors from EMs are especially attributed with passive "domestic institutional heritage … that are permeated by the domestic institutional environment and carried over in host countries" (Wang et al. 2014, p.5). The institutional image of EMNCs is often negative partially due to domestic institutional constraints. EMNCs' corporate governance is broadly considered weak because EMs generally do not yet have healthy stock markets or developed market economies free from relationship-based governance, and they are often subject to frequent government intervention (Li et al. 2016a; Luo and Tung 2007). EMNCs might even be considered to be their governments' instruments in the host countries, creating suspicion, concerns and resistance from local stakeholders (Zhang and Ebbers 2010).

Therefore, EMNCs suffer from weak brand recognition and poor country image. There are widespread concerns among foreign stakeholders and the public about the accountability, transparency, and trustworthiness of EMNCs and their home countries; hence, foreign stakeholders are reluctant to invest in relationship building with emerging market investors (Wang et al. 2014). As Wang et al. (2014) note, even famous EMNCs can be victims of such a stereotyped effect. As a result, having better institutional image perceptions is vital for acceptance in host countries and for international purchase completion.

We use the perceived institutional quality of investing nations as a proxy for the *Institutional image* of the EMNCs, which is derived from the World Bank's Worldwide Governance Indicators (WGI). This set of measures comprehensively reflects survey respondents' perceptions of the quality of six dimensions of governance: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption (Kaufmann et al. 2010, p. 4). Based on the above discussion, we hypothesize the following:

> **H1: EMNCs' overseas acquisitions are less likely to be completed if their home country has a poor institutional image.**

EMNC Strategy and Acquisition Completion

We are interested in seeing how EMNCs can overcome their institutional image disadvantages in overseas acquisition, which is their major market entry method (UNCTAD 2014b). We systematically examine EMNCs' internationalization and market selection strategies, which are under these firms' control, to study their roles in improving acquisition completion. We draw on the strategic response theme of institutional theory (Oliver 1991; Peng 2003) and the springboard perspective (Luo and Tung 2007) to develop hypotheses.

The strategic response theme of institutional theory (He et al. 2013; Oliver 1991; Peng 2003; Xu et al. 2004) suggests that firms will respond to institutional challenges by deploying resources and formulating strategies accordingly. Although institutions exert pressure on social players for conformity, convergence and isomorphism (North 1990; Peng 2003), businesses can react actively and differently to address these challenges depending on their resources and capabilities (He et al. 2013). For example, Oliver (1991, p. 146) suggests that firms' "responses to institutional pressures are not assumed to be invariably passive and conforming across all institutional conditions". Kostova and Zaheer (1999) posit that MNCs' legitimacy establishment in foreign markets is subject to both external institutional complexity and organizational characteristics (e.g. visibility and size of the MNC, legitimacy of other parts of the MNC). Following this logic, we argue that, to address the challenges stemming from a lack of resources and a negative institutional image, EMNCs can improve their legitimacy and then increase the likelihood of acquisition completion by pooling resources and developing strategies.

The springboard perspective also provides an important approach to understanding emerging market organizations' rapid internationalization and M&A (Luo and Tung 2007). This line of thinking suggests that EMNCs use international expansion as an efficient method to seize strategic assets and market opportunities and to avoid domestic institutional and market voids. It also systematically highlights the reasons for EMNCs to "spring" in great detail. This perspective offers the research a comprehensive view of the attributes of these organizations and their domestic environments and the motivations of and reasons for their rapid international expansion.

Drawing on these two perspectives, we suggest that to increase cross-border acquisition completion, EMNCs' solutions to the challenges deriving from the relatively unfavorable institutional image should look to compensate for poor images and close the gap between the

home and host institutional differences. We posit that an expanded home base (Zhou and Guillén 2015) and choice of institutionally close markets by EMNCs will result in less unfavorable perceptions of their home institutional image in the host country, enhancing their acquisition completion rate. The central argument for these considerations is that an EMNC suffering from a poor home country image may improve perceptions in the host country to reduce negative emotions and social stereotypes by: (1) expanding its home base, which helps to compensate for EMNCs' resource and image deficiencies (Luo and Tung 2007) by increasing their experience base, mitigating the liability of origin; and (2) choosing FDI targets in institutionally close markets, where their institutional image is less damaging or even favorable.

Home base and acquisition completion

An MNC's home base refers to the combination of countries, including the home country, where it accumulates operational experience (Zhou and Guillén 2015). An extended home base, including having cooperative arrangements with foreign firms at home (inward internationalization) and having overseas subsidiaries to learn firsthand (external internationalization), provides a crucial platform for EMNCs to develop an understanding of and to react to the institutional environments entailed in overseas acquisitions. We propose that an EMNC's extended home base both directly increases acquisition completion and helps to offset the effect of its home country's poor institutional image. Institutional theorists have suggested that an MNC's familiarity with the institutional profiles of the environment will make it easier to make sense of all of its environments and to respond appropriately to their legitimacy requirements (Kostova and Zaheer 1999). Firms obtain legitimacy by becoming "isomorphic" with the institutional environment by means of adjusting organizational forms, structures, policies, and practices to be similar to those institutionalized in their environment. Given the

complexity and variety of institutional environments and the differences among these environments, achieving legitimacy through isomorphism becomes a difficult task, especially for EMNCs that suffer from resource/capability constraints. They can adapt to local environments based on "the organizational experience in dealing with legitimacy issues and expertise in scanning different institutional environments, identifying important legitimating actors, making sense of their legitimacy requirements, and negotiating with them" (Kostova and Zaheer 1999, p. 72).

Inward internationalization refers to an EMNC's participation in cooperative arrangements, such as exporting and outsourcing, OEM (original equipment manufacturing), ODM (original design manufacturing), OBM (original branding manufacturing), strategic alliances or joint ventures (JVs), with international companies at home (Wang et al. 2014). Although the recent home base research has suggested that the home country loses relevance when an MNC expands its home base (Zhou and Guillén 2015), we should not ignore the benefits acquired from working with foreign partners at home. EMNCs can learn from the inward internationalization process before they invest abroad (Luo and Wang 2012).

This cooperative experience enables EMNCs to learn about international standards, practices and management from global players who transfer technological and organizational skills, allowing them to move forward, undertaking outward internationalization sooner and on a greater scale (Luo and Tung 2007; Luo and Wang 2012; Thomas et al. 2007). Working with foreign organizations and participating in global value chains are particularly helpful in overcoming issues of market information and uncertainty, as well as in developing knowledge in production, distribution, marketing, and management (Child and Tsai 2005). EM enterprises have gathered considerable technological and process management skills, unique capabilities and learning skills,

and financial and operational assets through cooperative arrangements with foreign parents (Luo and Tung 2007; Luo and Wang 2012). Arrangements such as exporting and importing, OEM, ODM and OBM provide EM firms with opportunities to achieve economies of scale and to obtain reputations in manufacturing excellence. Equity-based cooperative alliances and JVs bind EM firms even more closely to their foreign partners (Luo and Tung 2007), which can offer a spillover effect to the effective transfer of resources and can diffuse information to local partners, not only in terms of production and distribution but also in other areas in which internationally competitive standards must be achieved (Gu and Lu 2011). EM companies in which foreign investors have an equity stake generally have better corporate governance quality for FDI decision making (Bhaumik et al. 2010). MNCs are interested in those EM firms that have capabilities that include partnering abilities (Shi et al. 2014).

According to the organizational learning literature (Li et al. 2016a), the pool of experience and knowledge accumulated from this internationalization process not only influence EMNCs' attitudes toward cross-border acquisition (Deng 2009) but also provides them with the ability to identify ideal acquisition targets and cooperation partners, to understand institutions in target markets and to implement business activities overseas, all of which are imperative in overseas acquisitions.

In addition, EMNCs equipped with prior inward experience tend to have a better reputation for having international experience and an understanding of international practices (Child and Rodrigues 2005; Wang et al. 2014). They can benefit from the legitimacy spillover effects that inward internationalization can generate (Adkisson and McFerrin 2014; Kostova and Zaheer 1999). When an EMNC bids to buy into a new foreign market, the local stakeholder groups might lack sufficient information and knowledge of this foreign newcomer; their initial perception of

this EMNC player might arise from stereotypes about the home country of this EMNC and quite often the institutions of it. In contrast, stakeholders seek inferences from relevant sources about bidders (Adkisson and McFerrin 2014; Kostova and Zaheer 1999). The EMNC acquirer's cooperation experience with foreign organizations can serve as a reference for this purpose to improve its legitimacy. This spillover effect can reduce the liability of the foreignness of an EMNC bidder and compensate for the difficulty caused by the negative institutional image of its home country.

Based on arguments above, we propose both direct and moderating effects.

> **H2a: EMNCs' overseas acquisitions are more likely to be completed if they have inward internationalization experience.**
> **H2b: EMNCs' inward internationalization experience positively moderates the relationship between the poor institutional images of EMNCs' home countries and their acquisition completion.**

An international takeover can be undertaken by either an EMNC's units at home or by its overseas subsidiary. Based on the logic of the home base perspective (Zhou and Guillén 2015) and the springboard perspective (Luo and Tung 2007), we propose that foreign acquisitions through EMNCs' foreign subsidiaries are more likely to succeed.

International operations in locations including the home country provide valuable exposure to varying institutional and business conditions, forming a home base that reaches beyond the home country (Zhou and Guillén 2015). When firms invest and operate abroad, they gain and accumulate experience in a number of foreign countries and expand their home base from the home country to several countries. The original home image can become less visible and influential (Cuervo-Cazurra and Ramamurti 2015).

Internationalization also serves as a springboard for EMNCs to overcome home-based disadvantages (Luo and Tung 2007; Wang et al. 2014). Foreign investment, including acquisition itself, can mitigate an EMNC's disadvantages in brand awareness and international reputation (Luo and Tung 2007). Foreign subsidiaries tend to enjoy high autonomy as a strategic mechanism to overcome the EMNC's weaknesses in managing globally dispersed businesses and its home country disadvantages (Wang et al. 2014). First, operating overseas compensates for EMNCs' disadvantages in brand awareness, technological development and managerial experience (Child and Tsai 2005). EMNCs see the value in moving operations to advanced countries to escape discrimination against their home origins (Cuervo-Cazurra and Ramamurti 2015). According to Wang et al. (2014), subsidiaries differentiate themselves administratively from their home countries and from parents, and they undertake practices to establish local legitimacy. Foreign subsidiaries enjoying delegated autonomy dissociate themselves from parent companies to decrease the risk of poor corporate governance at the headquarters impeding legitimacy at the subsidiary level (Wang et al. 2014). Additionally, they hire local talent as senior executives, who work to provide domestic knowledge and connect in the role of "offshore champions" (Bartlett and Ghoshal 2000). As a result, EMNCs' foreign units can increase accountability and improve transparency, raising the units' reputation and trustworthiness with local stakeholders (Luo and Tung 2007). Subsidiaries serving as international acquirers may be further distanced from their home origin and parent organizations, thus finding it easier to gain legitimacy in the target nation.

Second, foreign subsidiaries help to exploit housed resources and to gain access to local knowledge (Gubbi et al. 2010). These subsidiaries learn by searching, experiencing, integrating and developing knowledge from a wider range of sources. As a result, operating overseas is a strategic mechanism to fix EMNCs' lack of foreign experience and the corresponding

unfamiliarity with how business should be conducted outside the home (Wang et al. 2014). This role of a subsidiary is especially relevant to EMNCs seeking to conduct further purchases overseas. Through prior international experience as foreign investors, firms gain important knowledge of customers, markets, cultures and governments, in turn facilitating future international expansion (Thomas et al. 2007). Operating in overseas environments also indicates organizational experience in overcoming legitimacy issues and expertise in examining different institutional environments, identifying important legitimating actors, understanding their legitimacy requirements, and negotiating with them (Kostova and Zaheer 1999). An understanding of and experience in managing institutional multiplicity and complexity in international operations help EMNCs identify ideal acquisition targets, price deals more realistically, conduct negotiations more confidently, and communicate with local stakeholders more effectively.

Experience in executing acquisitions, organizational inertia in absorbing targets, and a prior presence in international markets can facilitate complete cross-border acquisitions (Aybar and Ficici 2009).

> **H3a: EMNCs' acquisitions are more likely to be completed if they are undertaken by EMNCs' overseas subsidiaries.**
> **H3b: EMNCs' overseas subsidiaries' undertaking of foreign acquisitions positively moderates the relationship between poor institutional images of EMNCs' home countries and their acquisition completion.**

FDI location and acquisition completion

FDI location selection can also influence foreign acquisition completion. EMNCs face multiple country targets in overseas acquisitions, indicating multiple institutional environments, each presenting its specific set of regulatory, cognitive, and normative domains from institutional

theory (Scott 1995). The structure, composition and legitimacy requirements of these institutions typically vary across national environments (Kostova and Zaheer 1999). Therefore, the distance in institutions between the home and target forms an influential factor in MNCs' location choice strategies (Herz and Diamantopoulos 2013b).

However, the rationale of such an impact is far from clear and is not straightforward, as exemplified by the mixed results in the literature (Herz and Diamantopoulos 2013a). Recent scholarship has suggested that this influence is situation specific (Diamantopoulos et al. 2017). In the case of cross-border acquisition, the institutional distance between the home and the host can influence both the difficulty in correctly understanding local institutional requirements and the degree of adjustment required (Berry et al. 2010). It will be easier for a firm to understand and adjust to the legitimacy requirements of a country that is institutionally similar to its home country. The pressure for compliance with host-country rules and laws that a foreign acquirer cannot easily understand might render a deal more costly to finalize or even jeopardize its completion (Dikova et al. 2010).

Therefore, EMNCs must carefully choose their acquisition locations for greater likelihood of completion. We suggest that purchases in institutionally close countries are more likely to be completed. More than two-thirds of cross-border M&As by EMNCs are directed at developing and transition economies (UNCTAD 2014b), the institutional quality level of which is relatively low. Some 43% of the BRICS's outward FDI stock is in neighboring developing countries in Latin America and the Caribbean, East Asia, South Asia and transition economies (UNCTAD 2013).

The regulatory, normative, and cognitive institutional profiles of a host country form the pressures that foreign investors confront (Kostova and Zaheer 1999). International investors usually comprehend and adjust with more ease to an institutional environment similar to that of their home country, and the pressure to comply with a host country's institutions can obstruct deal completion (Dikova et al. 2010). MNCs are faced with fewer challenges in establishing legitimacy in countries with fewer institutional differences from the home country (Kostova and Zaheer 1999). Pressures that are directed specifically against EMNCs are likely to be strong in countries where the dominant ideology promotes a free market economy and more developed institutions exist (Meyer et al. 2014). Such countries organize their economies around markets and open competition among firms. The efficiency of markets is secured by institutions that promote free markets and, in particular, private property rights, transparency in business relationships, and the protection of private shareholders (Wang et al. 2014). In such a context, governments are normally not directly involved in business. EMNCs have experience addressing less-developed institutions back at home, where economic freedom is relatively low. They use institutional and business networks to compensate for an inefficient market mechanism (Peng 2003). These firms thus have institutional voids when extending into international markets. Their legitimacy is likely to be challenged because they appear to be inconsistent with the leading local ideology. Their predispositions result in normative pressures, which strengthen the positions of local stakeholders and add costs to the EMNC acquirers.

Instead, EMNCs can turn to institutionally similar countries, where they can find their institutional image to be less damaging or even advantageous. Institutional differences can dramatically increase the difficulty in and prolong the time for fulfilling cross-border acquisition attempts, thus decreasing the likelihood of completion (Dikova et al. 2010). EMs present

institutional constraints including "institutional voids (e.g., lack of legal protection for property rights, poor enforcement of commercial laws, non-transparent judicial and litigation systems, underdeveloped factor markets, and inefficient market intermediaries) and political hazards (e.g., political instability, unpredictable regulatory changes, government interference, bureaucratic red tape, corruption in public service and government sectors, and extremely discretionary explanation or enforcement of ambiguous laws and rules)" (Luo and Tung 2007, p. 486). Nonetheless, EMNCs could find developing economies to be both more comfortable and easier venues in which to complete acquisitions. Equipped with expertise in mass production through inward and external internationalization experiences and easily available technology, equipment, instruments and materials, EMNCs could explore their competitive advantages in other emerging/developing markets, manufacturing technologically standardized products at lower costs (Luo and Tung 2007). Moreover, EMNCs can build enduring brand reputations in other developing countries by leveraging the institutional image advantage because the stakeholders in developing countries perceive foreign-made products, from either industrialized or developing countries, to be of high quality (Aulakh et al. 2000). The positive perceptions of consumers can cause entry into these markets via acquisitions to encounter less friction from the public. In addition, the governments of these target countries tend to provide favorable treatment to foreign investment in efforts to attract capital and technology (Luo and Tung 2007).

Based on these arguments, we have the following hypothesis:

> **H4: EMNCs' acquisitions in institutionally close countries are more likely to be completed.**

DATA AND METHODS

Data

The samples were obtained from the Thomson Financial Merger & Acquisition database, which offers rich information about deal statuses, dates of announcement and completion of transactions, and attributes of the targets and the acquirers, including location, ownership, industry, experience, and advisors. The dependent variable (overseas acquisition completion) and most of explanatory variables in this research are derived from this database. The EMNCs in the dataset used in this paper were from ten major emerging economies: the BRICS (Brazil, Russia, India, China, and South Africa), Argentina, Malaysia, Mexico, Thailand and Turkey. We identify the emerging economies using the definition and the list by the IMF. The acquirers were entities registered in one of these emerging economies. To ensure that the acquirers were genuine EMNCs, we excluded locally registered subsidiaries of multinationals based in advanced countries. These economies were chosen for two reasons. First, they represent the largest EMs enjoying rapid economic growth and foreign investment. Even in the recent economic crisis, these economies still achieved decent growth rates. They have all been undergoing economic liberalization over the past two decades, through which they have become more integrated into the world economy (Becker 2014; Hill 2013; Zhang et al. 2011). The share of these ten countries in world GDP increased from approximately 12% in 1993 to 20% in 2012. Their outward FDI increased steadily over the past two decades, and they have become important global investors. Their share of global outward FDI increased from approximately 3.3% in 1993 to 7.3% in 2012. Second, although they are all classified as emerging economies, they also vary considerably from each other institutionally, economically, culturally and technologically. Figure 2 shows the differences and changes in institutional quality of the ten countries in 1996-2012. These differences provide us with desirable variance to test the influence of institutions in emerging economies. The representativeness and the differences among them make this group ideal for the study of EMNCs' cross-border acquisitions and the effects of institutions.

INSERT FIGURE 2 ABOUT HERE

Table 1 shows the number and percentage of acquisitions conducted by each of the ten EMs. From Thomson Financial Merger & Acquisition database, we extracted 17109 acquisitions that were announced directly and/or indirectly by the companies from the ten EMs during 1981-2012. Among them, 4423 announced deals were conducted through foreign subsidiaries, accounting for 25.9% of total. BRICS countries and Malaysia were the most active nations, with 87.4% of the total deals. The acquisition completion rates also varied among the ten countries, ranging from 57.2% (China) to 83.6% (Argentina).

The target nations spread in 185 nations, the top 20 of which accounted for 70.5% of the total (see Table 2). The United States, Hong Kong, Australia, the United Kingdom and Singapore were the most popular targets, constituting 41.3% of all announced deals.

INSERT TABLE 1 AND 2 ABOUT HERE

The institution-related variables, including the institutional distance, are derived from the WGI. The data reflect the views on institutions of a large number of enterprise, citizen and expert survey respondents by surveys worldwide. They are based on 32 individual data sources produced by a variety of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms (Kaufmann et al. 2010). The WGI index has been widely used in the literature to measure the quality of institutions (Adkisson and McFerrin 2014; Brockman et al. 2013; Langbein and Knack 2010; Lu et al. 2014; Pinar 2015). These perception-based indicators are ideal for measuring our key individual variable, institutional image, which consists of the perceptions in the minds of people toward a country's institutions for two reasons. First, they comprehensively include the home country's institutional conditions and other elements, such as culture and economic conditions, and personal experience and knowledge, which can influence the perception (Elliott and Cameron 1994). Second, although the

WGI index is considered archival data, it is based on a series of surveys including managerial perceptions, which are superior to the conventional archival data (Cui and Jiang 2012).

By combining the two databases, longitudinal data (1996-2012) of up to 13259 EMNC acquisitions are used to test the hypotheses. To ensure the acquirers investigated are EMNCs, acquisitions conducted by the subsidiaries of advanced country-based MNCs but registered in EMs are excluded from this study. Other types of foreign partnership are included, such as joint ventures and publicly traded companies with minority foreign shares.

Dependent variable

Consistent with prior research (e.g., Muehlfeld et al. 2012), we operationalize the dependent variable, *Completion*, as a dummy variable, which takes a value of 1 if the announced acquisition attempt was completed and is 0 otherwise.

Key explanatory variables

We use the perceived institutional quality to capture the *Institutional image* of the EMNCs, derived from the WGI. Institutional image stereotyping is a cognitive and normative process as a part of institutional environments (Chattalas et al. 2008; Scott 1995). EMNCs generally carry their domestic institutional heritage into host countries (Wang et al. 2014). Thus, the institutional quality of the investing nations forms an important basis for stakeholders' perceptions and labeling of foreign firms (Luo and Tung 2007). WGI comprehensively represents the survey respondents' perceptions of the quality of six dimensions of governance: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption (Kaufmann et al. 2010, p. 4). Due to the high correlations among the six indicators, this study, following previous research (Brockman et al. 2013), measures institutional

image by averaging these six indicators into a single broader index. To measure *Institutional image*, we use the reversed score of the WGI. The higher that the score is, the poorer that the image is. Since the deals that we investigated occurred in the period of 1996-2012, *Institutional image* is a time-varied variable. *Foreign partnership* indicates whether an acquirer from an EM has an equity-based foreign partner. We consider an acquirer as having foreign partnership when it meets at least one of the following three criteria: (1) it is a joint venture with a foreign partner; (2) it is a public company with a foreign parent; or (3) it is a private company with a foreign parent owning a stake of less than 50%. The subsidiaries of advanced country-based MNCs registered in EMs are excluded from this study. This variable is coded as a dummy with a value of 1 if the acquirer and its parent/partner are in different countries and 0 otherwise.

Subsidiary acquirer indicates an acquisition being conducted by an EMNC subsidiary located outside of the home country. It is coded as a dummy variable with a value of 1 if the acquirer is an overseas subsidiary of an EMNC and 0 otherwise.

We measure *Institutional distance* as the differences in institutional quality between the acquirer's and target's home countries. The institutional quality is measured by the mean of the six indicators from WGI index. The absolute difference is used in this study.

Control variables

Following Zhang et al. (2011), we control for many firm- and deal-specific factors that can influence the completion of acquisition attempts, as depicted below.

Experience is used to control for the effect of learning experience. It is operationalized as a dummy variable with a value of 1 if an acquirer had past successful international acquisition(s) and a value of 0 otherwise.

Advisor is used to capture whether an international financial advisor was used to influence acquisition completion. It is coded as 1 if an acquirer hired an international advisor and 0 otherwise. We expect that a deal with an international advisor is more easily completed than one without.

SOE target and *SOE acquirer*, respectively, indicate whether the two partners in the transaction are state-owned enterprises (coded as 1) or not (0).

Target GDP indicates the target nation's GDP in the year in which the acquisition was announced. We use the log value in the estimation.

Natural resource indicates whether an acquisition target is in the energy, mining, steel, or material industries (coded as 1) or not (coded as 0).

In addition to Natural resource industries (Zhang et al. 2011), we also include other industries coded as dummies, including Retail, Hightech, Manufacturing, Finance, Telecom, Energy, Consumer products and service, Health care, Media, Consumer Staples, Real estate, and year dummies in the estimation.

Estimation techniques

Because the dependent variable is dichotomous, we use logistic regression to analyze the determinants of outcomes of acquisition attempts. The logit model is represented as follows:

$$P(i) = 1/[1+e^{-\beta X(i)}] \qquad (1)$$

where P(i) is the probability of acquisition i being completed; e is the exponential function; X(i) is the vector of independent variables, including the key explanatory variables and control variables listed above; and β represents the regression coefficients of the vector of independent

variables X(*i*). The explanatory power of the logit model is determined using the likelihood-ratio test.

To assess the moderating effects, we use the approach used by Friedrich (1982) and Brambor, Clark and Golder (2006), and we consider employing a combination of the coefficients' variance, the covariance of the corresponding variable and interaction, and the value of the moderating variable. By doing so, we are able to overcome the limitations of the traditional method, which uses the estimated coefficient of the interaction terms to judge the moderating effect (Pinar 2015)

Prior to running the regression analysis, we calculate the correlations between the independent variables to check for potential multicollinearity problems. As shown in Table 3, two pairs of variables, *Foreign partnership* and *Subsidiary acquirer* and *Foreign partnership* and *Acquirer institution quality*, have high correlations. To avoid multicollinearity problems, we include the highly correlated variables in the estimation separately. Another pair of variables, *Acquirer institution quality* and *Subsidiary acquirer*, have a high correlation coefficient, but they do not appear in the same model. Therefore, all of the correlation coefficients between the variables in the same model are far less than the commonly used threshold of 0.7. In addition, we calculated VIF values for each model used. The results show that the values are far less than the cut-off level of 10.

RESULTS

The details of the logistic regression model results are presented in Table 4. As a benchmark specification, Model 1 includes constant and control variables. Based on Model 1, the first explanatory variable, *Institutional image,* is entered into Model 2. We further add *Foreign partnership* into Model 3 and *Subsidiary Acquirer* into Model 4. Because of a high correlation

between *Subsidiary acquirer* and *Foreign partnership*, we omit *Foreign partnership* from Model 4 to avoid multicollinearity. To test the effects of institutional distance, we add the variable *Institutional distance* to Model 5. *Subsidiary acquirer* is not in Model 3 or 5 due to the high correlation between *Subsidiary acquirer* and *Foreign partnership.*

INSERT TABLE 3 AND 4 ABOUT HERE

For each model in Table 4, we report the coefficients, the robust standard error (to control for possible heteroscedasticity), the value of the likelihood function at convergence, the likelihood-ratio chi-square and correct prediction ratio. The chi-square statistics are significant at the 1% level across all models, suggesting that the null hypothesis, in which all coefficients associated with the independent variables are simultaneously equal to 0, is rejected for all of the models, indicating a good model fit for all models.

The coefficients of *Institutional image* (the acquiring nation's institutional quality*)* are negative and significant ($p<0.01$), supporting H1. The coefficient of *Foreign partnership* is positive and significant ($p<0.01$) in Model 3, providing support for H2a. The coefficient of *Subsidiary acquirer* is positive and significant ($p<0.01$) in Model 3, consistent with H3a. The coefficient of *Institutional difference* is negative and significant ($p<0.05$), as predicted by H4.

To test the moderating effects in H2b and H3b, we include two interactive terms: *Foreign partnership*Institutional image* in Model 6; and *Subsidiary acquirer*Institutional image* in Model 7. Using the variance and covariance estimated from Models 6 and 7, we calculate the two critical ranges for the two moderating variables Z: *Foreign partnership*, and *Subsidiary acquirer*.

Table 5 shows the results, which indicate that, if *Foreign partnership* takes a value of 0, the marginal effect of *Institutional image* on completion likelihood is negative and significant

(p=0.01); however, if *Foreign partnership* takes a value of 1, the marginal effect of *Institutional image* on completion likelihood is no longer significant. This result indicates that *Foreign partnership* reduces the negative impact of *Institutional image* on deal completion significantly, consistent with H2b.

Table 5 also shows that if *Subsidiary acquirer* takes a value of 0, the marginal effect of *Institutional image* on completion likelihood is negative and significant (p=0.01); however, if *Subsidiary acquirer* takes a value of 1, the marginal effect of *Institutional image* on completion likelihood is no longer significant. This result indicates that *Subsidiary acquirer* reduces the impact of *Institutional image* on deal completion significantly, as predicted by H3b.

INSERT TABLE 5 ABOUT HERE

DISCUSSION

In this research, we advance the research on EMNCs' foreign acquisition completion by considering the negative institutional images that these firms face and the two strategies that they can use to overcome these effects.

Based on the experiences of developed-economy MNCs, the existing literature in the area has been established on the assumption that MNCs originate from countries where the institutional image is more or less positive or neutral (Dikova et al. 2010). Accordingly, the existing literature has not considered the antecedents of international acquisition completion that are negatively impacted by the institutional images of buyers from EMs. Using the strategic response theme of institutional theory (Barney et al. 2001; Peng 2003) and the springboard perspective (Luo and Tung 2007), we advance the novel idea that EMNCs' extended home bases and international market selection can serve as a response to such disadvantages in global competition when

expanding internationally. Focusing on the distinctiveness of EMNCs, we propose that an extended home base and international market selection assist these firms in overcoming image disadvantages vis-à-vis MNCs from advanced economies. Based on an analysis of 13,259 international acquisitions conducted by MNCs from ten major EMs, we find the following: (1) the institutional image effect exists for EMNCs' overseas takeovers, and acquisition completion is negatively associated with inferiority of their country image proxied by institutional quality; (2) EMNCs with inward internationalization experience do better at completing foreign takeovers, and this experience reduces the liability of EMNCs' home institutional images; (3) EMNCs achieve higher acquisition completion rates when acquisitions are fulfilled by overseas subsidiaries, and indirect acquisition helps to offset the negative effects of EMNCs' institutional images; and (4) completion is more likely when EMNCs buy in institutionally close countries. These findings are meaningful and have important theoretical and practical implications.

Implications

Researchers may find our research beneficial in three ways. First, we expand the institutional image (Bartlett and Ghoshal 2000; Child and Tsai 2005; Cuervo-Cazurra and Ramamurti 2015; Luo and Tung 2007; Moeller et al. 2013) and country-of-origin research (Balabanis and Diamantopoulos 2004; Diamantopoulos et al. 2017; Gineikiene and Diamantopoulos 2017; Herz and Diamantopoulos 2013a; b) of international business by examining its effects on foreign acquisition, an important but previously ignored issue. Due to the disadvantages of lacking critical endowments, such as brand names, international experience, managerial competence, and superior technology (He et al. 2013; Wang et al. 2014), and the home country's institutional voids (Luo and Tung 2007), EMNCs confront an additional "liability of foreignness" (Eden and Miller 2004), which is a negative country image, especially regarding their institutional deficiencies.

This institutional image comes from host country stakeholders' stereotyped cognition and negative understandings of EMs, and organizations, products and individuals from EMs that form oversimplified judgements (Balabanis and Diamantopoulos 2004; Diamantopoulos et al. 2017; Gineikiene and Diamantopoulos 2017; Herz and Diamantopoulos 2013a; b). This stereotype forms another layer of cognitive and normative institutional environments that international firms must face. Therefore, EMNCs tend to suffer from their passive country images in FDI (Child and Tsai 2005; Luo and Tung 2007; Moeller et al. 2013). For example, this institutional challenge forms an exacerbated obstacle to EMNCs' acquisitions and realization of strategic objectives (Aybar and Ficici 2009). Our investigation starts from the striking fact that, despite the growing importance of FDI from EMs, EMNCs see lower international acquisition completion rate than their counterparts from developed economies. We theorize and test that the institutional image effect plays a role in influencing EMNCs' low rate of closing foreign acquisition deals, our empirical study confirms the existence of this effect that the institutional image affects the likelihood of international acquisition completion, at least for investors from EMs.

Second, we enrich the EMNC literature by studying how EMNCs can employ strategies to tackle their negative country images to enhance acquisition performance. Facing the liability of foreignness and the negative institutional image, EMNCs can actively take measures to offset the negative effect than passively accepting the pressing challenges. Using the lens of the strategic response theme of institutional theory (Oliver 1991; Peng 2003) and the springboard perspective (Luo and Tung 2007), we suggest that EMNCs can respond strategically to address the institutional pressure derived from their EM origins. We propose and also empirically confirm two international strategies that can be helpful: expanding their home base (developing international experience and improve image and reputation through inward internationalization

and/or acquiring by an overseas subsidiary); and choosing FDI locations that are institutionally close.

Third, this study also extends the "home base" perspective, which is a recent development (Zhou and Guillén 2015). However, one of the drawbacks of Zhou and Guillén's work (2015) is the ignorance of the knowledge/experience that a firm can accumulate through inward internationalization and foreign partners with which it transfers and shares (Zhou and Guillén 2014). We fix the weakness and extend the home base perspective by highlighting the effects of conducting inward internationalization on increased international acquisition performance at a later stage.

This research also provides strong implications for policymakers and managers in both home and host countries. For emerging economies, outbound acquisition provides broader access to foreign markets, resources, managerial knowledge, and technology. However, the stereotyped impressions held by stakeholders in hosts, especially in developed countries, toward EMNCs and their home countries exert a more or less negative effect on their international expansion through takeovers. Thus, EM governments should improve their images by enhancing institutional quality and effectively communicating with the international community.

At the business level, given many EMs' poor country images, which form barriers to their companies' international acquisitions, according to our research, EMNCs can actively overcome this barrier by extending their home bases and implementing location strategies. Thus, for successful international expansion, EMNCs can join forces with foreign firms for richer experience/knowledge of international operations, to acquire through overseas subsidiaries to

extend their home bases and enhance international experience and image and to buy in less-developed countries.

Managers of EMNCs should be aware of the challenges in undertaking international acquisitions, particularly arising from country images. To overcome these difficulties for more acquisition completion, they can employ strategies, such as building up experience and reputation through internal internalization and/or purchasing via foreign subsidiaries as well as buying into institutionally similar markets. Finally, based on our findings, politicians and managers in FDI recipient nations will be in a better position to identify the strengths and weaknesses of international investors from EMs to increase inbound FDI deal closures.

Research limitations and future direction

This research is subject to a number of limitations, which could provide opportunities for future research. First, we used only data from the ten major EMs. Although we believe that these markets cover a variety of economic and institutional development levels, researchers may be interested in acquisitions from the large number of EMs other than these ten, which are increasingly actively participating in international business. Additionally, having only EM acquisitions limits the ability to compare these acquisitions with those from developed countries. Therefore, future research could expand the scope to generate more integrated results.

Peer researchers might want to use a more extended dataset to investigate the differences among EMs. Although emerging markets are widely regarded as sharing many characteristics in common (Becker 2014; Hill 2013), there remain differences, e.g. institutional development (see Figure 2). Responding to the institutional differences, EMNCs exhibit variance in their traits, strategies and performances (e.g., Sun et al. 2012). It would be interesting to reveal the linkages

of institutions to M&A strategies and performance among EMNCs in a comparison study. Our dataset limited us from having sufficient information to uncover these relationships. We encourage future research to apply richer data or a more suitable research setting for this comparison.

Second, in this study, due to limited information provided in the dataset, we focused only on the effects of internal cooperation experience, in the form of foreign equity-based partnerships, on acquisition performance. A non-equity partnership with foreign partners could also help EMNCs enhance their managerial skills to operate businesses in international markets and to improve their credibility and accountability in host countries. Therefore, further research efforts are warranted to investigate how and to what extent a non-equity partnership might facilitate an EMNC's cross-border acquisition.

Third, the two strategies under the lens were motivated by the theories we used in this study. Using other theoretical frameworks, researchers might devise new solutions to the challenge faced by EMNCs. We therefore encourage fellow researchers to enrich our understanding by considering other approaches.

Another interesting channel to advance our knowledge about institutional image and acquisition completion would be to investigate how institutional image matters differently to the two groups of host countries (developing countries vs developed countries). These two groups are considerably different in institutional frameworks; therefore, how the stakeholder groups view foreign investment could also be different. An examination of this distinction could expand our understanding of how institutional image matters across groups.

Furthermore, institutional image is one form of the stereotypical perceptions established among people to simplify and generalize their views of a society and its population (Diamantopoulos et al. 2017). Although our study demonstrates the importance of institutional image in influencing the outcome of international acquisition completion, other aspects of country stereotypes and COO effect are also worth further nuanced examination as they can transfer to the impression, inferences and responses individuals take (Diamantopoulos et al. 2017; Herz and Diamantopoulos 2013a), for example, the effect of animosity and nostalgia towards social entities from historically connected markets (HCMs) (Gineikiene and Diamantopoulos 2017).

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Figure 1. Summary of Hypotheses

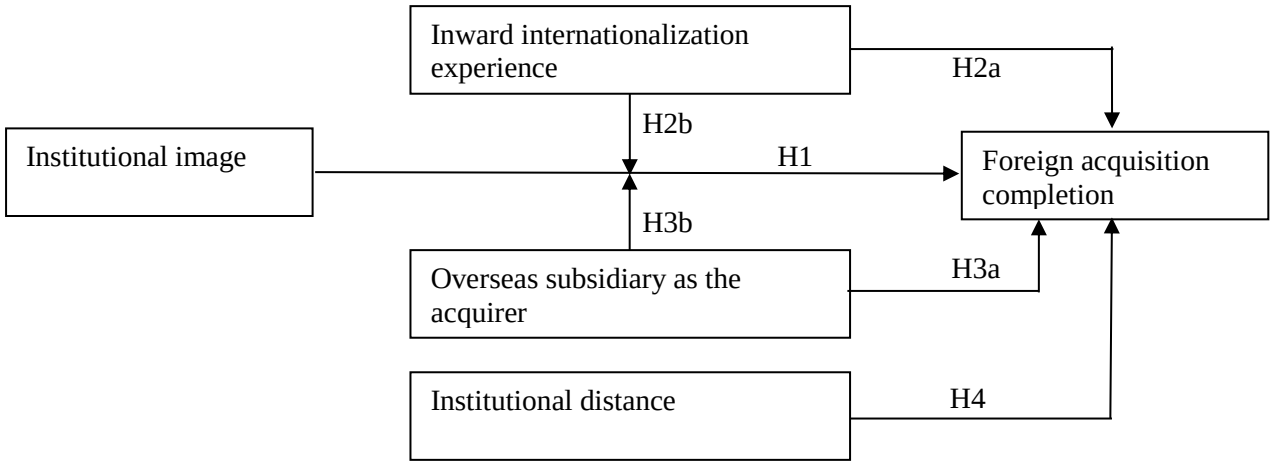
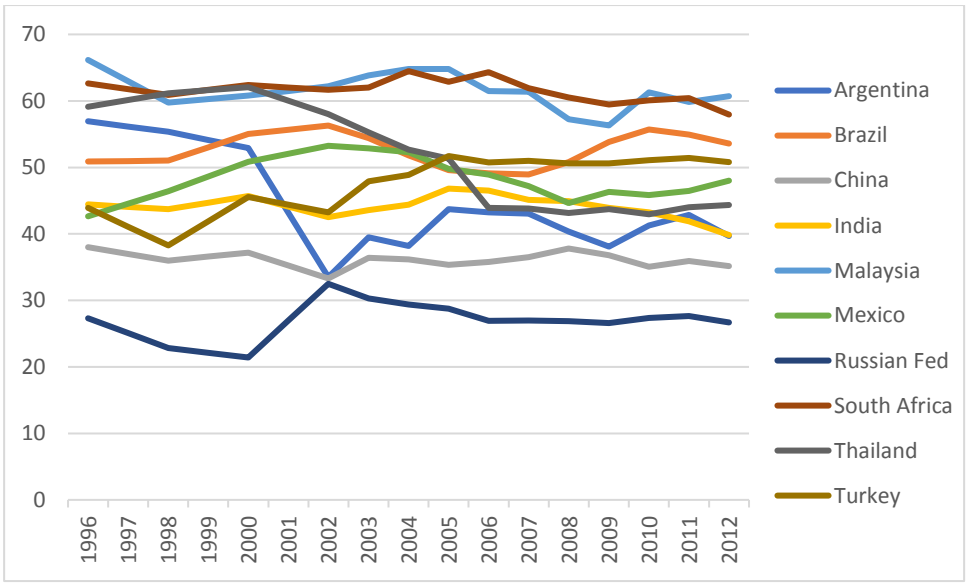


Figure 2. Institutional quality of ten EMs in 1996-2012



Source: Authors' own calculations based on data from the World Bank's Worldwide Governance Indicators.

Table 1. Number of acquisitions announced and completion rate by acquirer nations during 1981-2012

	Announced acquisitions				Number of completed acquisitions	Completion rate
Acquirer nations	Direct acquisitions	Indirect acquisitions	Total acquisitions	Share of each country		
China	2431	1105	3536	20.7%	2024	57.2%
Malaysia	2497	941	3438	20.1%	2393	69.6%
India	2107	495	2602	15.2%	1764	67.8%
Russia	1531	344	1875	11.0%	1268	67.6%
South Africa	1182	646	1828	10.7%	1397	76.4%
Brazil	1244	424	1668	9.7%	1198	71.8%
Mexico	620	190	810	4.7%	635	78.4%
Thailand	503	154	657	3.8%	414	63.0%
Argentina	290	75	365	2.1%	305	83.6%
Turkey	281	49	330	1.9%	216	65.5%
Total	12686	4423	17109	100%	11614	67.9%

Data source: Authors' own calculation based on data from the Thomson Financial Merger & Acquisition database

Table 2. Top 20 target nations

Target Nation	Direct targets	Indirect targets	Total targets	Share of each country
United States	1619	584	2203	12.9%
Hong Kong	1121	759	1880	11.0%
Australia	818	356	1174	6.9%
United Kingdom	765	360	1125	6.6%
Singapore	744	250	994	5.8%
Canada	378	213	591	3.5%
Indonesia	432	118	550	3.2%
Germany	372	139	511	3.0%
Argentina	317	85	402	2.3%
China	247	119	366	2.1%
Brazil	207	84	291	1.7%
Ukraine	226	47	273	1.6%
Thailand	210	47	257	1.5%
India	185	59	244	1.4%
Italy	183	37	220	1.3%
France	185	29	214	1.3%
Spain	160	52	212	1.2%
Philippines	154	50	204	1.2%
Netherlands	151	38	189	1.1%
Colombia	126	41	167	1.0%
Total	8600	3467	12067	70.5%

Data source: Authors' own calculation based on data from the Thomson Financial Merger & Acquisition database

Table 3. Descriptive statistics and correlation matrix of independent variables

		Mean	Std. D	Min	Max	1	2	3	4	5	6	7	8	9	10	11
1	*Completion*	0.683	0.465	0.000	1.000	1.000										
2	*Foreign partnership*	0.058	0.234	0.000	1.000	0.022	1.000									
3	*Subsidiary acquirer*	0.256	0.436	0.000	1.000	0.020	0.897	1.000								
4	*Institutional image*	-46.949	11.973	-21.409	-66.16	-0.050	-0.634	-0.685	1.000							
5	*Institution difference*	31.824	17.155	0.001	76.856	-0.032	-0.488	-0.541	0.530	1.000						
6	*Experience*	0.466	0.499	0.000	1.000	0.177	-0.071	-0.079	0.049	-0.010	1.000					
7	*Advisor*	0.160	0.367	0.000	1.000	0.110	0.019	0.002	-0.025	0.013	0.101	1.000				
8	*SOE acquirer*	0.014	0.118	0.000	1.000	-0.038	-0.059	-0.057	0.070	0.051	-0.012	-0.024	1.000			
9	*SOE target*	0.018	0.134	0.000	1.000	-0.030	-0.048	-0.046	0.073	-0.045	0.010	-0.008	0.031	1.000		
10	*Target GDP*	26.646	1.997	20.436	30.116	0.043	0.032	0.059	-0.097	0.162	-0.025	0.060	-0.038	-0.169	1.000	
11	*Natural resource*	0.137	0.344	0.000	1.000	-0.093	0.001	0.010	0.013	0.035	0.041	0.062	0.027	-0.009	-0.037	1.000

Table 4 Estimation results

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Institutional image		-0.00280***				-0.00494***	-0.00480***
		(0.001)				(0.001)	(0.001)
Foreign partnership			0.0811***		0.0516*	0.255**	
			(0.026)		(0.031)	(0.100)	
Subsidiary acquirer				0.0934***			0.358***
				(0.027)			(0.122)
Institutional difference					-0.00162**		
					(0.001)		
Subsidiary acquirer *Institutional image						0.00408**	
						(0.002)	
Foreign partnership *Institutional image							0.00521***
							(0.002)
Relatedness	0.0612**	0.0461*	0.0562**	0.0563**	0.0417	0.0452*	0.0457*
	(0.025)	(0.026)	(0.025)	(0.025)	(0.026)	(0.026)	(0.026)
Experience	0.458***	0.480***	0.463***	0.464***	0.477***	0.480***	0.481***
	(0.024)	(0.025)	(0.024)	(0.024)	(0.025)	(0.025)	(0.025)
Advisor	0.426***	0.419***	0.422***	0.424***	0.424***	0.417***	0.419***
	(0.035)	(0.036)	(0.035)	(0.035)	(0.036)	(0.036)	(0.036)
SOE acquirer	-0.399***	-0.355***	-0.377***	-0.376***	-0.361***	-0.342***	-0.341***
	(0.109)	(0.111)	(0.109)	(0.109)	(0.111)	(0.111)	(0.111)
SOE target	-0.271***	-0.233**	-0.260***	-0.261***	-0.257***	-0.218**	-0.221**
	(0.091)	(0.096)	(0.091)	(0.091)	(0.096)	(0.096)	(0.096)
Target GDP	0.0181***	0.0152**	0.0174***	0.0167***	0.0201***	0.0168***	0.0168***
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Natural resource	-0.235***	-0.250***	-0.236***	-0.238***	-0.239***	-0.244***	-0.244***
	(0.042)	(0.043)	(0.042)	(0.042)	(0.043)	(0.043)	(0.043)
Industry dummy	Included	Included	Included	Included	Included	Included	Included
Year dummy	Included	Included	Included	Included	Included	Included	Included
Constant	-0.296	-0.434**	-0.299	-0.284	-0.371**	-0.596***	-0.591***

	(0.404)	(0.183)	(0.408)	(0.408)	(0.182)	(0.195)	(0.193)
Observations	13259	12746	13259	13259	12746	12746	12746
chi-square test	875.5	885.8	883.3	886.4	880.9	891.4	894.9
Log likelihood test	-7763	-7432	-7758	-7757	-7434	-7429	-7428
Correct prediction ratio	69.95	70.12	70.00	70.00	70.08	70.08	70.00

Note: ***p<0.01, **p<0.05, *p<0

Table 5 Moderating effects of *Foreign partnership* and *Subsidiary acquirer*

Moderators (Z)	Explanatory variables (*X*)	Marginal effect ($\frac{\partial Y}{\partial X} = \beta_1 + \beta_3 Z$)	Significance of marginal effect
Foreign partnership	*Institutional image*	-0.001, for *Z*=1; -0.073, for *Z*=0	$\frac{\partial Y}{\partial X} < 0$ is insignificant when *Z*=1
			$\frac{\partial Y}{\partial X} < 0$ is significant (p=0.01) when *Z*=0
Subsidiary acquirer	*Institutional image*	-0.001, for *Z*=1; -0.076, for *Z*=0	$\frac{\partial Y}{\partial X} < 0$ is insignificant when *Z*=1
			$\frac{\partial Y}{\partial X} < 0$ is significant (p=0.01) when *Z*=0