

ACQUISITION BEHAVIOR OF EMERGING VERSUS DEVELOPED MARKET MULTINATIONALS

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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*

1 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

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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 that the size of the acquirer is crucial in affecting the relationship between the country-of-origin of the acquirer (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 our research design and measurement of variables. Next, the data and descriptive statistics are presented, followed by results and robustness checks. The study ends with a discussion and conclusion.

2 Literature Review

2.1. 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 and 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.

2.2. 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 and 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 and 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 and 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 than that of 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 and 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 location assets in their home countries. According to Narula (2012), the differences between EMMs and DMMs would diminish in the near future. Michailova and 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 and 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 and 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.

2.3. 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.

3. 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:

H 1: 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 than the 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 than 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.

H 2: 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 1.

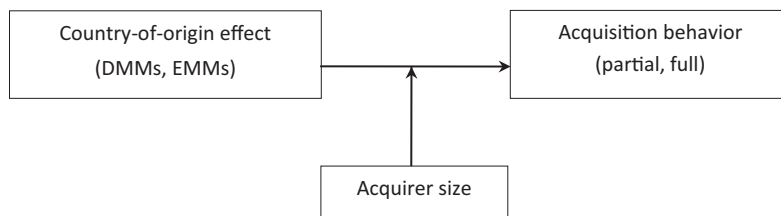


FIGURE 1. Conceptual Model

4. Research design and measurement of variables

4.1. 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:

$$\begin{aligned}
 \text{Prob (full acquisitions} = 1) & \\
 &= \beta_0 + \beta_1(\text{country} - \text{of} - \text{origin} * \text{acquirer size}) \\
 &+ \beta_2(\text{country} - \text{of} - \text{origin}) + \beta_3(\text{acquirer size}) + \beta_4(\text{acquirer experience}) \\
 &+ \beta_5(\text{target size}) + \beta_6(\text{deal relatedness}) + \beta_7(\text{cultural distance} - \text{UAI}) \\
 &+ \beta_8(\text{cultural distance} - \text{MAS}) + \beta_9(\text{cultural distance} - \text{IDV}) \\
 &+ \beta_{10}(\text{cultural distance} - \text{PDI}) + \beta_{11}(\text{GDP growth rate difference}) \\
 &+ \beta_{12}(\text{institutional distance}) + \beta_{13}(\text{industry dummies}) \\
 &+ \beta_{14}(\text{year dummies}) + \varepsilon
 \end{aligned}$$

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.

4.2. *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.

4.3. *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).

4.4. *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 \times 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, uncertainty avoidance and masculinity dimensions of culture, respectively.

TABLE 1. Summary of variables

Variables	Definitions	Similar applications in prior research	Data Sources
Acquisition mode	Dummy variable which took the value of <i>one</i> if acquirer's ownership of the target firm equaled 100% (full acquisitions), and took the value of <i>zero</i> for any percentage less than 100% (partial acquisitions).	Lahiri et al. (2014); Liang et al. (2009); Mariotti et al. (2014)	Bloom- berg 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 <i>PDI</i> , <i>IDV</i> , <i>MAS</i> , <i>UAI</i> 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 <i>one</i> if acquirer and target were from same industry sub-group, and took the value of <i>zero</i> otherwise.	Dang & Henry (2016); Santalo & Becerra (2008)	Bloom- berg data
Target size	Natural logarithm of the total assets.	Ahammad et al. (2017)	Bloom- berg data
Acquirer experience	Number of acquisitions preceding the current deal.	Arslan & Wang (2015); Duarte & Garcia-Canal, 2002, 2004	Bloom- berg 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); Tang & Cheung (2016)	Bloom- berg data
Country-of-origin	A dummy variable which took the value of <i>one</i> for EMMs, and <i>zero</i> for DMMs	Chikhouni et al., 2017; Contractor et al., 2014; Lahiri et al., 2014	Hoskis- son et al. (2000).

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). 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 1.

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.

From this initial dataset, we ignored deals with multiple acquirers*. 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. (2000) as an emerging market 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 subgroup 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 2. All VIF figures were below the stricter cutoff of 5, indicating that multicollinearity was not an issue in our analysis.

* Note, "multiple acquirers" at Bloomberg database means that two or more firms acquired a single target at exactly the same time.

TABLE 2. Descriptive statistics and correlations coefficients

	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) Acquisition mode	0.38	0.49	1.00											
(2) Institutional distance	1.82	1.28	-0.03	1.00										
(3) GDP growth rate difference	3.45	3.15	-0.04	0.81	1.00									

(4) Cultural distance- PDI	0.75	0.91	0.00	0.46	0.35	1.00								
				***	***									
(5) Cultural distance - IDV	1.98	1.14	0.15	-0.42	-0.40	-0.28	1.00							
			**	***	***	***								
(6) Cultural distance - MAS	5.08	3.64	-0.06	-0.17	-0.13	-0.11	-0.33	1.00						
				***	*	*	***							
(7) Cultural distance - UAI	4.26	3.29	0.03	0.37	0.37	0.40	-0.05	-0.30	1.00					
				***	***	***		***						
(8) Deal relatedness	0.35	0.48	-0.07	0.15	0.15	0.00	-0.12	0.00	-0.02	1.00				
				**	**		*							
(9) Target Size	16.78	2.49	-0.16	-0.07	-0.15	-0.04	0.17	-0.06	-0.08	0.08	1.00			
			**		**		**							
(10) Acquirer experience	0.43	1.16	0.00	-0.17	-0.20	-0.05	0.17	0.00	-0.12	-0.04	0.07	1.00		
				**	***		**		*					
(11) Acquirer size	20.39	2.69	-0.10	0.01	-0.06	0.05	0.15	-0.07	-0.06	0.11	0.59	0.24	1.00	
							**				***	***		
(12) Country-of-origin	0.42	0.49	-0.10	0.57	0.53	0.21	-0.57	0.23	-0.27	0.09	-0.18	-0.10	-0.11	1.00
				***	***	***	***	***	***		***		*	

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.

6 Results

The results of our regression analyses are provided in Table 3. 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* ($\beta = -0.231, p < 0.01$) suggests that acquirers preferred partial acquisitions when the target was bigger.

The coefficient of *country-of-origin* ($\beta = -1.904, p < 0.05$; Model 2) suggests that *EMMs* preferred partial acquisitions and that *DMMs* preferred full acquisitions. Hence, H1 is supported.

TABLE 3. Main results

	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)	

	Model 1		Model 2		Model 3	
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.

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 2 shows the interaction plot of country-of-origin effects with the acquirer size. Solid, dashed, and dotted lines denote 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 the steepest in absolute terms (smaller firms), followed by the dashed line (mean), with the dotted line being flattest (bigger firms) supporting our results.

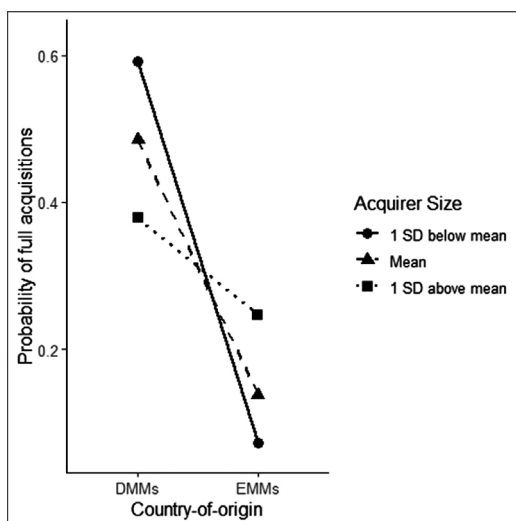


FIGURE 2. Interaction plot

7. Robustness check

For a robustness check, we considered alternative ways of operationalizing several control variables. Our results were robust when we operationalized cultural distance by Kogut and 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*.

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 4, with 95% cut-off in Model 1 and Model 2, and that of 90% cut-off in Model 3 and Model 4.

TABLE 4. Robustness check

	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 difference	0.141		0.162		0.082		0.100	
	(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)	

	Model 1		Model 2		Model 3		Model 4	
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.

8. 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 (Cervo-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 and 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 findings that the country-of-origin effect is stronger for smaller acquirers (H2) is supported by the springboard perspective. As mentioned, Luo and 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 and Tung (2007) further observe that available options to EMMs in such a situation include hiring a 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.

9. 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 and 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.

10. 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 the 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.

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