

## Durham Research Online

---

### Deposited in DRO:

10 August 2016

### Version of attached file:

Accepted Version

### Peer-review status of attached file:

Peer-reviewed

### Citation for published item:

Zhang, J. and He, X. and van Gorp, D. M. (2017) 'Economic freedom and cross-border acquisitions from emerging markets into developed economies.', *Thunderbird international business review.*, 59 (3). pp. 313-331.

### Further information on publisher's website:

<https://doi.org/10.1002/tie.21872>

### Publisher's copyright statement:

This is the accepted version of the following article: Zhang, J., He, X. and van Gorp, D. M. (2017), Economic Freedom and Cross-Border Acquisitions from Emerging Markets into Developed Economies. *Thunderbird International Business Review*, 59(3): 313-331, which has been published in final form at <https://doi.org/10.1002/tie.21872>. This article may be used for non-commercial purposes in accordance With Wiley Terms and Conditions for self-archiving.

### Additional information:

## Use policy

---

The full-text may be used and/or reproduced, and given to third parties in any format or medium, without prior permission or charge, for personal research or study, educational, or not-for-profit purposes provided that:

- a full bibliographic reference is made to the original source
- a [link](#) is made to the metadata record in DRO
- the full-text is not changed in any way

The full-text must not be sold in any format or medium without the formal permission of the copyright holders.

Please consult the [full DRO policy](#) for further details.

## **Economic freedom and cross-border acquisitions from emerging markets into developed economies**

Dr. Jianhong Zhang  
Nyenrode Business University and YNUFE  
Straatweg 25  
3621 BG Breukelen  
The Netherlands  
Tel.: +31-346-29 1764  
Fax: +31-346-29 1250  
Email: [j.zhang@nyenrode.nl](mailto:j.zhang@nyenrode.nl)

Dr. Xinming He  
Durham University Business School  
Ushaw College  
DH7 9RH  
UK  
Tel: +44-191-334 9424  
Fax: +44-191-334 0595  
Email: [xinming.he@durham.ac.uk](mailto:xinming.he@durham.ac.uk)

Prof. Dr. Désirée M. van Gorp  
Nyenrode Business University and Renmin University  
Straatweg 25  
3621 BG Breukelen  
The Netherlands  
Tel.: +31-346-29 1260  
Fax: +31-346-29 1250  
Email: [D.vGorp@nyenrode.nl](mailto:D.vGorp@nyenrode.nl)

## **Economic freedom and cross-border acquisitions from emerging markets into developed economies**

**Abstract:** Extending the home base perspective by considering investors' parent countries, this study examines the effect of economic freedom (EF) on emerging-market enterprises' (EMEs) overseas acquisition completion in developed countries. Using a large data set of 5,174 cross-border acquisition deals from ten major emerging markets (EMs) during 1985-2011, we find that (1) the probability of deal completion is positively associated with the levels of EF of the acquirers' countries, of the acquirers' parent and of the target; (2) the EF of the countries of acquirers' parents has a substitutive effect on that of the acquirers' countries; (3) the difference of EF between the targets' countries and the countries of acquirers' parents negatively influences deal completion; and (4) the difference of EF between the targets' countries and the acquirers' countries negatively influences deal completion. These findings have important theoretical implications for international business scholars, as well as practical implications for managers and for policy makers of EMEs that are active in FDI.

**Key words:** home base, economic freedom, cross-border acquisition, emerging market enterprises, FDI, institution.

## **Introduction**

In recent years, there are noticeable changes in the world economy such as the closing of the gap between the economic freedom (EF) of developing and developed countries (Deng, 2012; Gwartney, Lawson & Hall, 2013; Ncube et al, 2014), the ambiguous nationality of multinational enterprises (MNEs), and the significantly growing acquisitions by emerging markets enterprises (EMEs) into developed economies (Buckley, Elia, & Kafouros, 2014; Deng, 2012). However, research has been under-developed about how EF in the extended home base context influences EMEs' international acquisition success in developed countries. This research seeks to further explore this relationship in order to contribute to the literature regarding EMEs' globalization.

We focus on the effect of EF, because it represents an important institutional dimension. The Heritage Foundation conceptualizes it as an overall account of the countries' institutions, such as trade policy, fiscal burden, government intervention, monetary policy, foreign investment, banking/finance, wages/prices, property rights, regulations, and unofficial markets (Anokhin & Joakim, 2012). It describes the extent to which a country is a market economy (Berggren, 2003), an important element of good institutions that can impact business efficiency at the micro-level and economic growth at the macro-level (Anokhin & Joakim, 2012).

Previous research has investigated the impact of general institutions (e.g., Dikova et al., 2010; He et al., 2013). However, researchers also argue that it is worth to examine the influence of different aspects of the institutional framework as it can provide a finer and more in-depth view (Hutzschenreuter, Kleindienst & Lange, 2015). The developments of different institutional dimensions show different trends, which can have different effects on business. For example, in developed countries political systems remain quite stable in recent years, while the level of EF

has obviously changed in the past decade (Ncube et al., 2014; Kacarski, 2014). Non-tariff trade barriers, restrictions on foreign investment, and business rules and regulations have all grown in major free economies like the US, the UK, Canada, and Australia (Gwartney, Lawson & Hall, 2013). On the contrary, the level of EF in EMs increases (Deng, 2012), which shrinks the gap in EF between developing and developed countries (see Figure 1)<sup>1</sup>. Therefore, research through the lens of important aspects of institutions such as EF can provide a finer and more thorough understanding of how important institutional factors impact firms' international activities.

(Insert Figure 1 here)

Although acknowledging the importance of EF, the literature still presents at least two knowledge gaps. First, given its importance, EF's influence on MNEs' international acquisition performance remains relatively under-exposed in the literature (e.g., Meyer & Sinani, 2009). In both developing and developed countries, governments often interfere in economic activities in various ways, e.g., by launching programs supporting firms' internationalization. This is especially true in EMs (Luo et al., 2010). Governments' support can be a double-edged sword. With governments support firms can gain competitiveness in international markets (Deng 2012; Luo, Xie & Han, 2010). However, governments' intervention may actually deter firms' international expansion. For example, some Chinese firms active in cross-border acquisitions experience their hosts' fear that they will engage in political purposes for the Chinese government (Zhang & He, 2014). The coexistence of these two opposite forces raises an interesting but unanswered question, namely to what extent does EF benefit a firm's internationalization?

---

<sup>1</sup> The discrepancy between the ten emerging economies and four developed countries has been decreasing over time.

Second, past research is limited to the institutional quality and the differences between the firm's host and the home countries (Salomon & Wu, 2012), especially the latter (Zhou & Guillen, 2014). A recent development suggests that it is the home base (countries firms already operate in including the home) instead of the home that forms a meaningful foundation for firms' international experience. Because the dynamic liability of foreignness defined relative to the home base predicts better firms' internationalizing behaviors than the static one defined relative to the home country (see Zhou & Guillen, 2014). However, this advancement still sees a limitation, as it ignores the knowledge/experience that foreign partners/parent firms transfer to and share with the investing entity if it has foreign links. For example, the institutional distance literature largely focuses on the differences between the home and the host while ignoring the institutional influence of parents' countries (Hutzschenreuter, Kleindienst, & Lange, 2015; Salomon & Wu, 2012). A proportion of EMs FDI is actually undertaken by subsidiaries, located and registered in EMs but invested and owned by MNEs from other nations. Foreign parents exert important influence on the EMEs, under the institutional constraints in their home countries and reflect these in their international operations (Hillman & Wan, 2005). Therefore, EMEs having foreign parents may act differently from others. Overlooking foreign parents' institutional environment and experience weakens our understanding of EMEs. Addressing this, we envisage the interplay between countries of the investor, the investor's parent if any, and the host on FDI outcome.

In summary, these two shortcomings leave three questions unanswered. How does EF of the countries concerned influence the success of EMEs' cross-border acquisition in developed countries? How does national EF of the three parties moderate each other in determining EMEs'

acquisition success? How do the differences of EF between the nations facilitate/impede EMEs' acquisitions?

To answer these questions, we use the concept of country-specific advantage from the FDI theory (Dunning & Lundan, 2008a, 2008b; Shan & Hamilton, 1991), institutional theory (North, 1990; Scott, 1995; Peng, Wang, & Jiang, 2008), and the home base perspective (Zhou & Guillen, 2014).

With a framework comprising of national EF of acquirers, targets, and acquirers' parents, we extend the home base perspective (Zhou & Guillen 2014) to include both acquirers' homes and their parents. Empirically, we examine acquisition completeness as an aspect of acquisition success, namely pre-acquisition performance.

The study makes three important contributions to the literature. First, it extends the home base perspective (Zhou & Guillen 2014) by addressing the impact of an acquirer's operating and parent countries, which are not always the same<sup>2</sup>. We consider effects of three nations involved in international acquisition (the acquirer country, the target country, and the parent country) on EMEs' acquisition completion in developed economies. This forms a better predictor of firms' FDI outcome than the home base or the home country.

Second, we examine the impact of EF, an important but overlooked institutional factor, on EMEs' acquisition success. EF, an important institutional element, affects both business efficiency and national economy (Anokhin & Joakim, 2012). It represents the quality of a country's market-supporting institutions (Berggren, 2003). Our focus on EF can enrich the literature by addressing the limited scope of aggregated institutions while ignoring the specific effects of individual

---

<sup>2</sup> Extending Zhou and Guillen (2014), we refer an acquirer's operating country to the home country, and the country of its ultimate parent as the parent country. These two are unnecessarily the same. For example, a British MNE invests in China and sets up a subsidiary, which can further make investment into other countries, e.g., Thailand. This FDI will be counted as China's FDI. In this case, we define UK as the parent country, China as the home country, and Thailand as the target country.

institutional factors that can offset each other (Peng, 2014). Third, it contributes to EM literature by theorizing and testing how EF in the context of the extended home base helps EMEs increase foreign acquisition success and thus providing important theoretical and practical implications.

### **Theory and Hypotheses**

Three different but interrelated streams of research allow us to develop the theoretical foundations of this study. The international business research explains the impact of country-specific advantage on MNEs (Dunning & Lundan, 2008a, 2008b; Shan & Hamilton, 1991). Dunning's OLI paradigm and its extended concept of ownership advantages (e.g., Dunning & Lundan, 2008a) introduce country-specific advantages into the framework of ownership advantages. Country-specific advantages include national institutional and political advantages, industrial advantages, and market advantages (Dunning & Lundan, 2008a, 2008b). These advantages augment competitiveness of firms in the same country, and facilitate firms' international expansion, such as cross-border acquisition. From this logic, the degree of EF, as an important institutional factor, can create country-specific (dis)advantage for MNEs influencing the outcome of their cross-border acquisitions.

Second, the institutional studies arguing that institutions influence firms' behavior, strategy and performance (Brouthers, 2002; He, Brouthers, & Filatotchev, 2013; Peng, Wang, & Jiang, 2008). MNEs are subject to the influence of institutions in both home and host countries, and the distance between them (Peng, Wang, & Jiang, 2008). The institutions of home and host country influence FDI flows in general (Bénassy-Quér et al., 2007) and subsidiaries' performance in particular (Gugler, 2013). Some empirical studies find that the quality of formal institutions in a target nation or the institutional distance between target and acquirer nations is relevant to the



completion of an announced acquisition (Dikova et al., 2010; Zhang et al., 2011). We extend this line of research by including the institutions of acquirer parents' nation while enriching the "home base" perspective (Zhou & Guillen, 2014).

Third, the recently developed "home base" perspective suggests that MNEs are under influence of the set of countries in which they operate, while the home country is losing relevance (Zhou & Guillen, 2014). Firms investing overseas follow strategies that reflect features of their home base rather than their home country. Further building on this line of thinking, we suggest that when the firm has a foreign parent, the parent country should also be considered because the parent firm embedded in its home institutions delegates power and transfers knowledge to overseas subsidiaries, which is deeply influenced by the institutional system at home (Wang, Luo, Lu, & San, 2014). Thus our concept of the extended home base (Zhou & Guillen, 2014) is a combination of not only the home country and the set of countries where the firm operates in, but also the parent's country.

Drawing on the insights of these three streams of research, we propose that EMEs' cross-border acquisition success can be influenced by the EF of the EMEs' home base in two ways. First, the national EF of an acquirer and the acquirer's parent both contribute to the EME's country-specific advantage, which influences the deal completion. Second, the national EF of the acquirer's parent remedies the EME's poor image in target countries, which improves EMEs' legitimacy and hence the deal completion. Third, the EF of an acquirer's parent country relative to the target country also impacts EMEs' acquisition completion as an important environment facilitating force. Figure 2 exhibits the conceptual model and the hypotheses.

(Insert Figure 2 here)

The level of EF refers to the degree to which it entails the possibility of entering into voluntary contracts within the framework of a stable and predictable rule of law that upholds contracts and protects private property with a limited degree of interventionism in the form of government ownership, regulations, and taxes (Berggren, 2003). Free economic environment encourages new entry, boosts competition, motivates firms to be more innovative and become more competitive (Gwartney, Holcombe, & Lawson, 2004). In contrast, in countries with less EF business opportunities are undermined (Aybar & Ficici, 2009). Therefore, a high-level EF brings strong locational country-specific advantage. In many EMs, the market system is underdeveloped in comparison with that in developed economies. This makes EMEs perceived less competitive and accountable in developed markets (Luo & Tung, 2007) that is deterring their acquisition from completion.

EMEs are not a homogeneous or clearly identifiable group (Ramamurti, 2009). They have different characteristics and levels of performance partially depending on the country they come from and operate in (Khanna, 2009). There is significant variance among EMs in terms of the scale and the scope of institutional development (Hoskisson, Wright, Filatotchev, & Peng, 2013). This includes the varying levels of EF. Figure 1 shows how EF and the convergence across countries have been changing over time. However, the difference among the EMs is still obvious. The changes and the differences imply the importance of investigating the impact of EF on firms' internationalization.

EMEs from countries of relatively high EF can enjoy relative country-specific advantage at home for having fewer institutional voids (Peng, 2012). The EMEs that are benefiting from the development of the private sector, commodity and factor markets, and free-market institutions have easier access to business opportunities and valuable resources for international operations,

including finance and labor, and protection from excessive governmental intervention (Wang, Hong, Kafouros, & Wright, 2012). Regarding EMEs' overseas acquisitions in developed countries, EF of acquirer's country may influence the outcome of acquisition attempt in two ways. First, in a less free economy, government has more influence on business. The government's intervention provokes negative reaction regarding the acquisition from stakeholders of targets deterring the deal completion (Zhang et al., 2011). The frequently seen government interventions, such as financial support, make the EMEs' FDI regarded as having political goals rather than economic ones (Chakrabarti, 2011).

Second, from the acquirer's perspective, competition is facilitated by home institutions that foster EF (Hunt, 2000). In a free market, firms that cannot provide customers with enough value for their money will be replaced by rivals that are more competitive (Gwartney et al., 2013).

Therefore, we argue that in a freer economy competition is more encouraged, which enhances the competitiveness of firms from this economy. In addition, EMEs from countries with a relatively high EF tend to be more experienced in and confident with undertaking operations in markets with a high level of EF such as is the case in developed countries. As a result, firms from freer economies are more competitive and experienced in the acquisition market and have a better chance to complete deals. From the target's perspective, if an acquirer is from a freer economies, the stakeholders in the host country, including local investors, authorities, customers, supplies and the public, may feel less concerned about the EMEs' ability to fulfill the acquisition deal, sufficiently fund the acquisition, deal with the post-acquisition integration, and keep the business on track (Luo & Wang, 2012). All these elements contribute to an increase in success of overseas acquisition for firms from EMs with a relatively high EF. Based on these arguments, we propose the following hypothesis:

**H1: The level of EF of an EME's home country is positively associated with the likelihood of its foreign acquisition completion in developed markets.**

Institutional theory highlights the significant legitimacy pressures exhibited for foreign firms in the host country, which directly affect firms' strategic choices and performance (Peng et al., 2008). Furthermore, firms from EMs are subject to more complex institutional pressures in developed host countries. They can improve legitimacy by aligning their organizational practices to local norms and regulations. Affiliation with parent firms in developed economies enable the investing firms to gain alignment by learning from the parent organizations and sharing their high levels of legitimate image locally (Meyer et al., 2014). Studies suggest that experience of cooperating with partners from the developed economies is a unique and critical resource of EMEs to internationalize (Thomas, Eden, Hitt, & Miller, 2002), and such experience contributes to their internationalization performance (Zhong et al., 2013).

Regarding the linkage with parent firms, there are three types of EMEs: having no foreign parent, having a parent from another developing country, and having a parent from a more developed economy<sup>3</sup>. Working with partners from developed economies serves as a valuable channel for EMEs to learn the international markets, the institutions in other developed countries, and how to engage in international competition, and increase their legitimacy and image in the host countries (Luo & Wang, 2012). Learning from partners from a context of high-level EF is highly beneficial for EMEs to undertake acquisitions in other developed economies. Their parents have experience in operating in this type of environment and can transfer the knowledge to EMEs, which is different from the knowledge they can develop in the home market alone (Luo & Tung, 2007; Mathews, 2002, 2006). It is argued that EMEs equipped with the pool of information and

---

<sup>3</sup> We thank an anonymous reviewer for this point.

knowledge from their parents from freer markets can do better in understanding developed markets, identifying international investment opportunities and acquisition targets, planning for market entry, negotiating with the stakeholders and dealing with issues raised along the process, and consequently they are having a better chance to complete deals. Thus we propose:

**H2a: The level of EF of an EME's parent country is positively associated with the likelihood of its foreign acquisition completion in developed markets.**

As we stated above, EMEs from a freer market are more likely to complete their foreign acquisition than those from a less free market. It is acknowledged that EMEs from a less free market suffer from poor image of corporate governance and accountability (Luo & Tung, 2007), which may dampen their acquisition efforts in the developed host countries. However, if an acquirer from an EM has a parent from a country with high level EF, the stakeholder may be less concerned about the credibility and accountability of the acquirer due to the expectation that the parent from a free market has a positive influence on the acquirer in terms of transparency and capability, and the parent may reduce the political influence from the government. Therefore, a good country image of a foreign parent makes the acquirer's EF less important in deal completion. However, if an acquirer from an EM has a parent from a country with lower level EF, the stakeholder may be more concerned about the credibility and accountability of the acquirer, making the acquirer's EF more important in deal completion. We thus expect that the relationship between the level of EF of an acquirer and deal completion is contingent on the level of EF of parents' country i.e. the higher the EF is in parents' countries, the less important the EF of EMs is in deal completion. In other words, when EF of an EME acquirer's parent country is high, the relationship between the level of EF of the acquirer's country and the likelihood of the deal completion is weak, which indicates a negative moderating effect. Thus, we propose that:

**H2b: The level of EF of an EME acquirer's parent country has a negative moderating effect on the relationship between the EF of the home country and the likelihood of its foreign acquisition completion in developed markets.**

Apart from the institutional quality of each home base country, the distance between these countries can impede the acquirers' capacity to: 1) absorb new knowledge and apply existing knowledge; and 2) obtain legitimacy (Hutzschenreuter, Kleindienst, & Lange, 2015). The institutional difference between the host and the home countries has been recognized as an important factor determining MNEs performance (Dikova et al., 2010).

The distance between two countries is not always symmetric. This asymmetry indicates that distance is not without direction. As Zaheer et al. (2012, p. 23) argue, "by merely considering the magnitude of difference, rather than the direction of distance, we are in effect positing a relationship whereby it doesn't matter how two entities differ, only how much they differ". For example, in terms of absolute distance measure, the distance between US-China EF levels is equal to that of between Nigeria and China. However, this absolute distance does not reveal anything about the superiority of the EF of one over the other. Our study aims to check if the level of EF of the target country in relation to a parent influences the likelihood of international acquisition completion between them. Although the target countries in this study are developed countries, the parent countries can be both developed and developing countries. In this case, the distance is directional. Therefore, we use relative distance which measures not only to what extent they are different but also how they are different. Thus the distance is coded as a vector instead of a scalar.

The relative distance of EF from a target country to a parent country can impact EMEs' acquisition outcome. The target countries in this study are developed countries that enjoy relative

high EF. If a parent country is a developing economy, the distance should be positive. However, if a parent country is a developed economy, the relative distance can be negative when the EF of a parent country is higher than a target country. A low distance or negative distance means the parent tends to have greater EF, and it is more likely for the investing firm to learn about experience and knowledge when it is operating and acquiring in a free market economy (Thomas et al., 2002). Additionally, the developed-economy parent helps to increase the EME's international image and accountability for undertaking international expansion (Luo & Wang, 2012; Mathews, 2002, 2006). Thus the EME's acquisition success will be more likely, hence we propose:

**H3: The EF distance from an EME's target country to its parent country is negatively associated with the likelihood of its foreign acquisition completion in developed markets.**

#### **Data and Methodology**

We identified 5,174 deals for analysis that are all cross-border acquisitions in developed markets conducted by EMEs from 10 EMs during 1985-2011 obtained from the Thomson Financial Merger & Acquisition database. This database collects information on mergers and acquisitions worldwide from a number of resources, such as news media in different countries, filings at the US Securities and Exchange Commission and its international counterparts, and trade publications (Pryor, 2001). It attempts to cover all transactions that involve at least 5% of one of the parties participating in the transaction and includes all corporate transactions involving at least 5% ownership of a company and a transaction value of one million USD or more or where the value of the transaction is undisclosed (Breinlich, 2008). We have selected all EMEs of ten EMs from this database by using the following selection criteria: 1) the acquirers are the firms from one of the ten major EMs, including the BRICS (Brazil, Russia, India, China, and South

Africa), Argentina, Malaysia, Mexico, Thailand and Turkey; and 2) the targets are the firms operating in one of the developed markets. The ten EMs are chosen for different reasons summarized below. They are representing important EMs. Furthermore, they all showed rapid economic growth in past decades and even in the recent economic crisis, as most of them still achieved decent growth<sup>4</sup>. In addition, they all went through economic liberalization in the past two decades and as a result have become more integrated into world economy (Hill, 2013). The share of these countries in the global GDP increased from about 12% in 1993 to 20% in 2012. Even more, they have become important global investors, whose share of the global OFDI increased from about 3.3 % in 1993 to 7.3% in 2012 (see Figure 3) and are all active in acquisition in developed countries. Finally, although they are all classified as EMs, they also vary from each other institutionally, economically, culturally and technologically. The representativeness and the variances make the data ideal to study EMEs' cross-border acquisitions.

(Insert Figure 3 here)

### ***Dependent variable***

Following past research (Dikova et al., 2010, Zhang & He, 2014), the dependent variable is *Acquisition completion*, which is coded as a dummy variable that takes the value of 1 if the announced acquisition attempt is completed and 0 otherwise.

### ***Key explanatory variables***

---

<sup>4</sup> According to data from UNCTAD, the average growth rate of the ten emerging countries was 9.5% during 1993-2012, in contrast to 3.7% as the world average. During the economic downturn, 2008-2012, the average growth rate of these ten countries was 6.1%, while the world average was only 1.7%.



The key explanatory variables in this study are the variables used to measure the level of EF. The latter is measured by the EFW index, which is designed to measure the degree to which the policies and the institutions of countries are supportive of EF. The index was first produced by Gwartney, Block, and Lawson (1996) and has been updated annually<sup>5</sup>. The EFW index places the concept of EF within the classical liberal tradition measuring it related to five major areas: Size of Government, Legal System and Property Rights, Sound Money, Freedom to Trade Internationally and Regulation. This study uses the chain-linked summary ratings to measure the level of EF. This index is comparable across time and countries. Higher scores are accorded to nations with more secure property right, freer trade, more stable money and prices, less government spending, and fewer regulations (Hall & Lawson, 2013, p. 1). The index is presented on a 0–10 scale. The means, standard deviations, min and max of the variables are presented in Table 1. Details of the key explanatory variables are presented as explained below.

*EF Acquirer parent* represents the EF level of the country of the acquirer's parent. In our sample, all the acquirers either have foreign parents or domestic parents, among which 14% of acquirers have foreign parents from either the developing or the developed world. *EF Acquirer* denotes the level of EF of the nation of the acquirer.

*EF target-parent* indicates the difference of EF levels between the target's country and the parent's country. It is the value of the target country minus the parent country.

*EF parent-acquirer* indicates the difference of EF levels between the acquirer's and its parent's countries. It is the value of a parent's score minus the acquirer's.

---

<sup>5</sup> See Gwartney, Lawson, and Hall (2013) for the most recent report. The details of the index, the data, and its methodology are available both in the report and at [www.freetheworld.com](http://www.freetheworld.com).

*EF target-acquirer* indicates the difference of EF levels between a target's and its acquirer's countries. It is the value of the EF level of the target's country minus that of the acquirer's country.

As stated above, this paper intends to investigate to what extent a relative higher EF level of a country compared with another country influences the deal completion and in what direction. Therefore we use relative values instead of absolute values to calculate the differences.

### ***Control variables***

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

*EF Target* indicates the EF level of the nation of the target. The target nations included in our study cover 25 countries from the developed world<sup>6</sup>.

*Experience* is used to control for the impact of the learning experience. Experience is identified as an important success factor in deal completion (Gomes, Angwin, Weber, & Yedidia Tarba, 2013). Following Zhang et al. (2011), we measure experience with a dummy variable with a value of 1 if an acquirer has successfully completed one or more foreign acquisitions in the past, and a value of 0 otherwise.

*Advisor* is used to capture the international financial advisor's influence on acquisition completion. It is coded as 1 if an acquirer hires an international advisor, and 0 otherwise.

---

<sup>6</sup> Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Portugal, Ireland, Ireland-Rep, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Singapore, South Korea, Spain, Sweden, Switzerland, United Kingdom, United States.

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

*Target GDP* indicates the target nation's GDP in the year that the acquisition is announced. We use log value in our estimation.

*Relatedness* indicates whether the target and the acquirer in a transaction are in the same industry or not. This variable is a dummy measure with a value of 1 if the target and the acquirer belong to the same industry (measured at the four-digit SIC-code level), and 0 otherwise.

*Hightech* indicates whether a target is in high tech industry (coded as 1) or not (coded as 0). We use AeA's 45 SIC codes list<sup>7</sup>, measured at the four-digit level, to identify a high-technology industry.

*Natural resource* indicates if an acquisition target is in mining, steel, and material industries (coded as 1) or not (coded as 0).

Besides including the two industry dummies, *Hightech* and *Natural resource*, as in Zhang et al. (2011), we also include other industry dummies (*Retail, Manufacturing, Finance, Telecom, Energy, Consumer products and service, Health care, Media, Consumer staples, Real estate*) and time dummies.<sup>8</sup> In the estimation, we take the Manufacturing industry and the year 2011 as baselines.

### ***Estimation***

---

<sup>7</sup> Retrieved April 5, 2009 from [http://www.aeanet.org/Publications/Idmk\\_definition.asp#List](http://www.aeanet.org/Publications/Idmk_definition.asp#List).

<sup>8</sup> Due to the fact that the data of economic freedom are missing in 1986-1989 and 1991-1994, we do not have dummies for these years.

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

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

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  $\beta$  is the regression coefficient for the vector of the independent variables  $X(i)$ . The explanatory power of the logit model is determined using the likelihood ratio test.

We calculated correlations between the independent variable and VIF values to check for potential multicollinearity problems. As in Table 1, a few pairs of variables have high correlations, such as *EF acquirer parent* and *EF Acquire* (0.632), *EF acquirer parent* and *EF differ target-parent* (0.759), *EF differ target-parent* and *EF differ target-acquirer* (0.716). In order to avoid multicollinearity, we include these highly correlated variables separately in the estimation models. In addition, we calculate VIF values for each models used. The result shows that all values range between 1.01 and 3.67, which are well below the cut-off level of 10. These statistics suggest multicollinearity is not an issue in our estimations.

(Insert Tables 1 here)

To assess the effect and the significance of the moderating effect of *EF Acquirer Parent*, the estimated coefficient of the interaction terms is not sufficient. The coefficient' variance and covariance of the corresponding variable and interaction terms, and the value of the moderating

variable should all be taken into account (Zhang et al., 2011). Therefore, we use the approach by Friedrich (1982) and Brambor, Clark, and Golder (2006) to assess the effect and the significance of the moderating variable.

## Result

The results of the *probit* regression models are presented in Table 2. As a benchmark specification, Model 1 includes the control variables. Model 2 provides the results with the first explanatory variable added: *EF Acquirer*. In Model 3 the *EF Acquirer parent* is added. Due to a high correlation between the *FE Acquirer parent* and the *EF Acquirer*, we drop the *EF Acquirer* in this model to avoid multicollinearity. Models 4 and 5 repeat the estimation of Model 2 and 3 without year dummies<sup>9</sup>. To assess if there are any moderating effects at the level of the *EF Acquirer parent* in the relation between the *EF Acquirer* and deal completion, we include the interaction terms, *EF Acquirer Parent\* EF Acquirer* in Model 6. Using the variance and covariance obtained from Model 6, we calculate the moderating effect of the *EF Acquirer parent*. The results are shown in Figure 4. Models 7-8 test the influence of differences in the level of EF between the parent and the target, the acquirer and the target respectively. For each model in Table 2, we report the coefficients, the robust standard error (in order 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 1% level across all models, which suggest that the null hypothesis that all the coefficients associated with the

---

<sup>9</sup> In our data exploration, we find that the economic freedom in target countries shows a clear downward trend since 2001. The correlation between time-tend variable and *EF Target* is highly significant. Including year dummies may cover the part of effect of *EF Target* on deal completion. Therefore we present the estimation without year dummies in Model 4 and 5. The correlations between time tend variable on the one hand and *EF Acquirer* and *EF Acquirer parent* other hand are insignificant, therefor we keep year dummies in the other models.

independent variables are simultaneously equal to 0 is rejected for all models. This indicates a good fit for all models.

(Insert Table 2 and Figure 4 here)

In Model 2 (Table 2), the coefficient of the *EF Acquirer* is positively and significantly ( $p < 0.01$ ) related to likelihood of deal completion, in line with H1. In Models 3 and 5, the coefficient of the *EF Acquirer Parent* is positively and significantly ( $p < 0.01$ ) related to the likelihood of deal completion, supporting H2a. In Model 7, the coefficient of the *EF differ target-parent* is negative and significant ( $p < 0.01$ ), providing support to H3. In Model 8, the coefficient of the *EF differ target-acquirer* is negative and significant. This significant result is in line with the previous studies using institutional distance to measure the country difference (Dikova et al., 2010;). The coefficient of a control variable, FE Target, is positive but insignificant in Models 2 and 3. However, it becomes positive and significant ( $p < 0.05$ ) when the year dummies are removed as presented in Models 4 and 5. Due to the fact that there is a clear time trend with the *EF target*, we expect that the estimation without year dummies reveals better the effect of the *EF target*. This result is in line with the previous studies (Zhang et al., 2011).

Figure 4 exhibits the results of the moderating effect of the *EF Acquirer Parent* on the relation between the *EF Acquirer* and deal completion. As can be seen from the slope of the solid line, the moderating effect of the *EF Acquirer Parent* is negative. When the *EF Acquirer Parent* is lower than 7.2 (both dotted lines are above 0), the marginal effect of *EF Acquirer* on deal completion is positive and significant. However, the marginal effect become insignificant even negative when the *EF Acquirer Parent* is higher than this point. This result confirms that the *Acquirer Parent* has a negative moderating effect on the *EF acquirer*. This finding suggests that the higher the

level of EF in a parent country is, the less important is the level of EF in the acquirer's home country. In other words, the relation between *EF acquirer* and *acquisition completion* is conditional on the level of EF of a parent. This result implies that a high the level of EF of a parent is very important for investors from a country with a low level of EF. However, it is less important for those with a high level of EF. Thus H2b is supported.

### **Robustness tests**

To validate our findings, we performed additional tests with alternative measurements of the level of EF. We first estimate the models with the Freedom to Trade Internationally, one dimension of EF (Gwartney, Lawson, & Hall, 2013). It is closely related to international investments and varies over time. This measurement has 4 sub-components including Tariffs, Regulatory trade barriers, Black-market exchange rates, Controls of the movement of capital and people. The same as the EF index used for our main tests, score of Freedom to Trade Internationally is on a 0-10 scale, and annually updated. The result of the robustness test is presented in Table 3 and Figure 5. The results are largely similar to those obtained using overall score of EF and thus all our hypotheses remain supported. Second, we use another measurement named Regulation. This dimension measures to what extent regulations restrict entry into markets and interfere with the freedom to engage in voluntary exchange in credit, labor, and product markets (Gwartney, Lawson & Hall, 2013, p. 7). It is also on a 0-10 scale, and annually updated. The estimated results with this alternative measurement are consistent with the main estimations (the results are available upon request).

(Insert Table 3 and Figure 5 here)

### **Discussion and Implications**

This paper examines the impact of an important institutional factor, EF, on the outcome of EMEs' cross-border acquisitions in developed economies. We extend the home base perspective (Zhou & Guillen 2014) to include the parent country of the EME. Therefore, we choose to look at the influence of the level of EF of EMEs' home base which consists of their home country and parent country on the outcome of EMEs' cross-border acquisitions. We find that EF significantly impacts the outcome of EMEs' cross-border acquisitions in the following ways.

First, EF helps to explain EMEs' pre-acquisition performance in advanced countries. Our empirical findings show that EF levels of the countries of the acquirer and its parent, have significant influence on deal completion. Thus our research suggests that the level of EF facilitates acquisition deal completion. Particularly, the EF level of the EME's parent country plays an important role. It not only influences pre-acquisition performance directly, it also has a substitutive effect on the EF of the country of the acquirer. We find that the level of EF of the acquirers' parent countries offsets the negative effect of the poor institutional quality in their home countries.

Second, in addition to the absolute level of EF, the relative difference of EF levels between the involved nations also influence deal completion. Our findings indicate that the bigger the gap between the levels of EF from the target's nation to the parent nation, the less likely the deal will be completed. Moreover, the bigger the gap of EF from the target's nation to the acquirer's nation, the less likely the deal will be completed.

The study has important academic implications regarding the role played by the level of EF on EMEs' outbound FDI performance. EF represents one of the most important institutional factors, and has been developed by the Heritage Foundation to gauge the overall quality of a countries'



institutions (Anokhin & Joakim, 2012). The level of EF in both developed and developing countries is very dynamic in recent years (Ncube et al, 2014; Kacarski, 2014). Deepening our understanding of the institution referred to as EF, our research echoes institutional theorists' call for more insights on specific institutional factors addressing the limitation of those IB studies using aggregated institutional measures that overlook the differences among the dimensions (Peng, 2014).

Moreover, it adds to the recently developed home base perspective (Zhou & Guillen, 2014) by addressing the impact of the MNEs' parent countries on the outcome of acquisitions. The home base perspective reflects the reality better than the simple home perspective because it defines the dynamic liability of foreignness relative to the home base, overcoming the limitation of the static one defined relative to the home country. We further extend this perspective to comprehensively consider the impact of three countries involved in overseas acquisition (acquirer country, target country and parent country) on EMEs' acquisition completion in developed economies. This provides superior prediction of EMEs FDI outcome compared to the existing home base approach.

Finally, it adds to our knowledge of EMEs by investigating the way how these firms can improve their international acquisition completion. We develop a framework incorporating the institutions of EF in the context of the extended home base and test relevant hypotheses. Our results provide insights on how EMEs increase foreign acquisition completion through considering their home base and the level of EF as important indicators of institutional quality.

This research also provides important implications for practitioners and policy makers. When acquiring overseas, firms from EMs need to take into account the institutional quality of the target countries as previous theory have suggested. Developed countries are generally considered

as free economies with fewer restrictions in business in comparison with developing countries. However, the differences among the developed countries are big enough to influence the success of acquisition activities. EMEs are advised to study the specific institutional environment of each host country instead of viewing them as a homogenous group. Beside the institutional quality of target countries, the institutional quality of their own and the parent's country are also very important. If the level of EF at home is inevitably low than that of the parent works as a remedy. For higher acquisition completion in advanced counties, EMEs are advised to make good use of the better county image derived from the parent country during the acquisition process, and buy in the target countries closing the distance of EF between the parent's nation and the target's nation. When buying in a target country with a higher level of economic-freedom compared to the home country, EMEs need to put more efforts to overcome negative sentiments arising from their less free home economies. They are advised to build their public relation capability and to build a more positive image for their companies in order to shape the stakeholders' opinion. In the long term, they should make corporate governance more open and visible.

To enhance EMEs' international acquisition success, emerging countries' governments are advised to: 1) reduce their intervention in the national economy and increase the level of EF because it provides a better business environment where firms develop capabilities for internationalization; and 2) encourage inbound FDI from countries having a high level of EF, which can further boost outward FDI from the host EMs and increase the acquisition success as a whole.

There remain several limitations in this research. First, we do not distinguish between the two types of effect of home base: 1) the business environment of the home base, including EF, forms the basis of firms' competitive advantages and influences their overseas performance; and 2) the

home-base image influenced by the EF level sends a positive or negative signal to stakeholders about the acquirers, which influences the legitimacy of the acquirers hence the deal complication. More research efforts are needed to explain and to test the two different effects.

Second, we only reveal the impact of EF on EMEs' pre-acquisition performance in advanced countries. It would be interesting to compare the difference between EMEs and MNEs from developed economies with respect to this impact. Investigating the difference helps to understand the home effect in a broader context, and may provide important business and policy implications.

Third, although we seek to extend the home base perspective to include the parent country of the EMEs, we do not investigate the effect of the countries in which the firm already operates. Future study needs to reveal the effect of this so-called third country. In addition, due to the data availability, we do not examine the effect of some other important factors, such as the size of the deals and size of the firms involved, financial resources, attitude of stakeholder, corporate governance. We recommend that future research compares the difference between EMEs and MNEs from developed economies with respect to the effect of these factors.

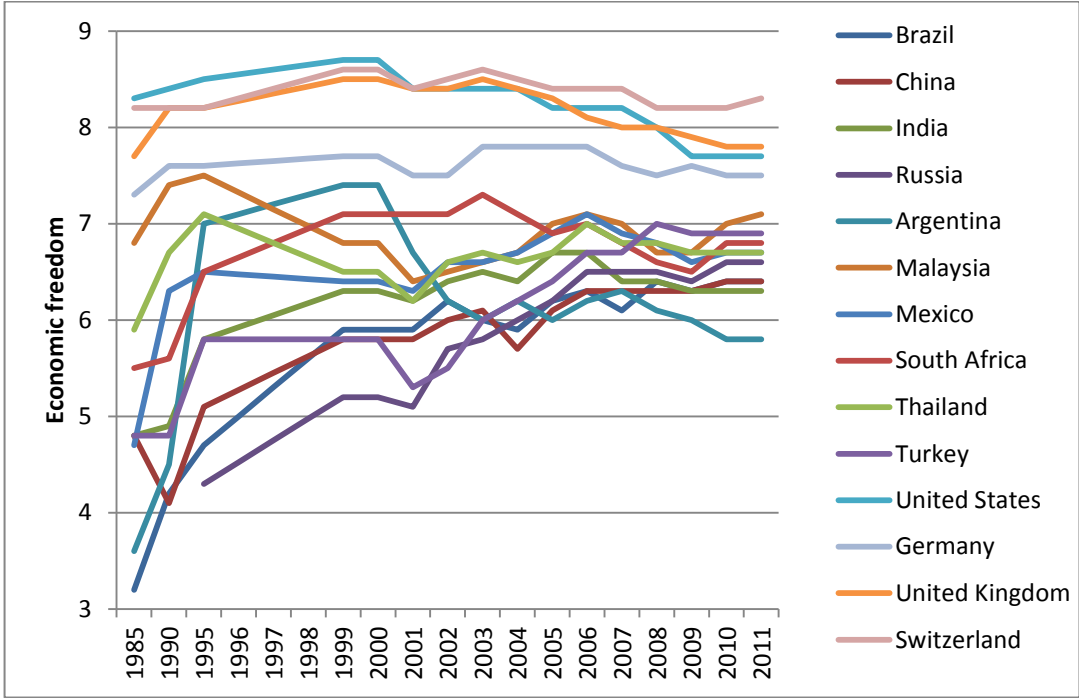
## References:

- Anokhin, S., & Wincent, J. (2012). Start-up rates and innovation: A cross-country examination. *Journal of International Business Studies*, 43(1), 41-60.
- Aybar, B., & Ficici, A. (2009). Cross-border acquisitions and firm value: An analysis of emerging-market multinationals. *Journal of International Business Studies*, 40(8), 1317-1338.
- Bénassy-Quér, Agnès, Coupet, Maylis, & Mayer, Thierry. (2007). Institutional determinants of foreign direct investment. *World Economy*, 30(5), 764-782.
- Berggren, N. (2003). The benefits of economic freedom: A survey. *The Independent Review*, 8(2), 193-211.
- Brambor, T., Clark, W. R., & Golder, M. (2006). Understanding interaction models: Improving empirical analyses. *Political Analysis*, 14(1), 63-82.
- Breinlich, H. (2008). Trade liberalization and industrial restructuring through mergers and acquisitions. *Journal of International Economics*, 76(2), 254-266.
- Brouthers, K. D. (2002). Institutional, cultural and transaction cost influences on entry mode choice and performance. *Journal of International Business Studies*, 33(2), 203-221.
- Chakrabarti, A., Vidal, E., & Mitchell, W. (2011). Business transformation in heterogeneous environments: The impact of market development and firm strength on retrenchment and growth reconfiguration. *Global Strategy Journal*, 1(6-26).
- Deng, P. (2012). Accelerated internationalization by MNCs from emerging economies: Determinants and implications. *Organizational Dynamics*, 41, 318-326.
- Dikova, D., Sahib, P. R., & Witteloostuijn, A. (2010). Cross-border acquisition abandonment and completion: The effect of institutional differences and organizational learning in the international business service industry, 1981-2001. *Journal of International Business Studies*, 41(2), 223-245.
- Dunning, J. H., & Lundan, S. M. (2008a). Institutions and the OLI paradigm of the multinational enterprise. *Asia Pacific Journal of Management*, 25(4), 573-593.
- Dunning, J. H., & Lundan, S. M. (2008b). *Multinational enterprises and the global economy*. Cheltenham: Edward Elgar.
- Friedrich, R. (1982). In defense of multiplicative terms in multiple regression equations. *American Journal of Political Sciences*, 26(4), 797-833.
- Gomes, E., Angwin, D. N., Weber, Y., & Yedidia Tarba, S. (2013). Critical Success Factors through the Mergers and Acquisitions Process: Revealing Pre- and Post-M&A Connections for Improved Performance. *Thunderbird International Business Review*, 55(1), 13-35.
- Gugler, K., Mueller, D. C., Peev, E., & Segalla, E. (2013). Institutional determinants of domestic and foreign subsidiaries' performance. *International Review of Law & Economics*, 34, 88-96.
- Gwartney, J., & Lawson, R. & Hall, J. (2013). *Economic freedom of the world 2013 annual report*. Vancouver: Fraser Institute.
- Gwartney, J., Lawson, R. (2004). *Economic Freedom of the World 2004 Annual Report, 2010 annual report*. Vancouver: Fraser Institute.
- Gwartney, J., Lawson, R., & Block, W. (1996). *Economic freedom of the world: 1975-1995*. Vancouver, B.C., Canada: Fraser Institute.
- Gwartney, J., Holcombe, R. & Lawson, R. (2004). Economic freedom, institutional quality, and cross-country differences in income and growth. *Cato Journal*, 24(3), 205-233.

- He, X., Brouthers, K.D., & Filatotchev, I. (2013). Resource-based and institutional perspectives on export channel selection and export performance. *Journal of Management*, 39(1), 27-47.
- Hill, H. (2013). The political economy of policy reform: Insights from Southeast Asia. *Asian Development Review*, 30(1), 108-130.
- Hillman, A. J. and Wan, W. P. (2005). The determinants of MNE subsidiaries' political strategies: evidence of institutional duality. *Journal of International Business Studies*, 36(3), 322-340.
- Hoskisson, R.E., Wright, M., Filatotchev, I., & Peng, M.W. (2013). Emerging multinationals from mid-range economies: The influence of institutions and factor markets. *Journal of Management Studies*, 50(7), 1295-1321.
- Hunt, S. D. (2000). *A general theory of competition: Resources, competences, productivity, economic growth*. Thousand Oaks, London and New Delhi: Sage Publications.
- Hutzschenreuter, T., Kleindienst, I., & Lange, S. (2015). The Concept of Distance in International Business Research: A Review and Research Agenda. *International Journal of Management Reviews*. Forthcoming, doi: 10.1111/ijmr.12065
- Kacarski, E. M. (2014). The Non-tariff Barriers in the Developed Countries (The Case of USA, EU and Japan). *Applied Sciences and Business Economics Journal* 1.2 (2014).
- Khanna, T. (2009). Learning from economic experiments in china and India. *Academy of Management Perspectives* 23(2), 36-43.
- Kim, H., Kim, H., & Hoskisson, R. E. (2010). Does market-oriented institutional change in an emerging economy make business-group-affiliated multinationals perform better: An institution-based view. *Journal of International Business Studies*, 41(7), 1141-1160.
- Luo, Y., & Tung, R. L. (2007). International expansion of emerging market enterprises: A springboard perspective. *Journal of International Business Studies*, 38(4), 481-498.
- Luo, Y., & Wang, S.L. (2012). Foreign direct investment strategies by developing country multinationals: A diagnostic model for home country effects. *Global Strategy Journal*, 244-261.
- Luo, Y., Xue, Q., & Han, B. (2010). How emerging market governments promote outward FDI: Experience from china. *Journal of World Business*, 45(1), 68-79.
- Mathews, J. (2002). Competitive advantages of the latecomer firm: A resource-based account of industrial catch-up strategies. *Asia Pacific Journal of Management*, 19(4), 467-488.
- Mathews, J. A. (2006). Dragon multinationals: New players in 21st century globalization. *Asia Pacific Journal of Management*, 23(1), 5-27.
- Meyer, K. E., Ding, Y., Li, J., & Zhang, H. (2014). Overcoming distrust: How state-owned enterprises adapt their foreign entries to institutional pressures abroad. *Journal of International Business Studies*, 45(8), 1005-1028.
- Meyer, K.E., & Sinani, E. (2009). When and where does foreign direct investment generate positive spillovers: A meta-analysis. *Journal of International Business Studies*, 40(7), 1075-1094.
- Ncube, M., Lufumpa, C. L., Kayizzi-Mugerwa, S., Murinde, V., Shimeles, A., Salami, A. O., & Ressaïsi, N. (2014). Global Protectionism Five years since the great financial crisis. *Market Brief*, 5 (2), 1-7.
- North, D. C. (1990). *Institutions, institutional change and economic performance*. New York: Cambridge University Press.
- Peng, M. W. (2012). The global strategy of emerging multinationals from china. *Global Strategy Journal*, 2(2), 97-107.
- Peng, M. W. (2014). New research directions in the institution-based view. *Research in Global*

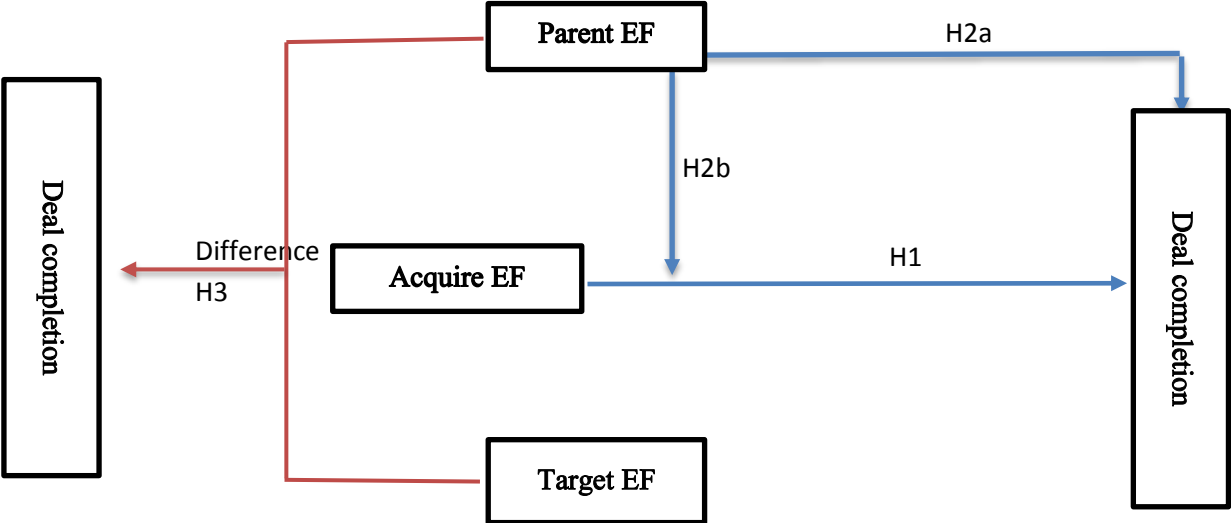
- Strategic Management*, 16, 59-78.
- Peng, M. W., Wang, D. Y. L., & Jiang, Y. (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, 39(5), 920-936.
- Pryor, F. L. (2001). Dimensions of the worldwide merger boom. *Journal of Economic Issues*, 32, 825-840.
- Ramamurti, R. (2009). What have we learned about emerging MNEs? In emerging multinationals from emerging markets. In R. a. S. Ramamurti, J. (Ed.). Cambridge, U.K.: Cambridge University Press.
- Salomon, R., & Wu, Z. (2012). Institutional distance and local isomorphism strategy. *Journal of International Business Studies*, 43(4), 343-367.
- Scott, W. R. (1995). *Institutions and organizations*. Thousand Oaks, CA: Sage.
- Shan, W., & Hamilton, W. (1991). Country-specific advantage and international cooperation. *Strategic Management Journal*, 12(6), 419-432.
- Thomas, D. E., Eden, L., Hitt, M. A., & Miller, S. R. (2002). Experience of emerging market firms. *Management International Review*, 47(6), 845-867.
- Wang, C., Hong, J., Kafouros, M., & Wright, M. (2012). Exploring the role of government involvement in outward FDI from emerging economies. *Journal of International Business Studies*, 43(7), 655-676.
- Wang, S. L., Luo, Y., Lu, X., Sun, J., & Maksimov, V. (2014). Autonomy delegation to foreign subsidiaries: An enabling mechanism for emerging market multinationals. *Journal of International Business Studies*, 45, 111-130.
- Zaheer, S., Schomaker, M. S., & Nachum, L. (2012). Distance without direction: Restoring credibility to a much-loved construct. *Journal of International Business Studies*, 43(1), 18-27.
- Zhang, J., & He, X. (2014). Economic nationalism and foreign acquisition completion: The case of china. *International Business Review*, 23(1), 212-227.
- Zhang, J., Zhou, C., & Ebbers, H. (2011). Completion of Chinese overseas acquisitions: Institutional perspectives and evidence. *International Business Review*, 20(2), 226-238.
- Zhong, W., Peng, J., & Liu, C. (2013). Internationalization performance of Chinese multinational companies in the developed markets. *Journal of Business Research*, 66(12), 2479-2484.
- Zhou, C., Witteloostuijn, A., & Zhang, J. (2014). The internationalization of Chinese industries -- overseas acquisition activity in Chinese mining and manufacturing industries. *Asian Business and Management*, 13(2), 89-116.
- Zhou, N., & Guillen, M.F. (2014). From home country to home base: A dynamic approach to the liability if foreignness. *Strategic Management Journal*, forthcoming

**Figure 1 Economic freedom of the ten emerging countries and four advanced countries**



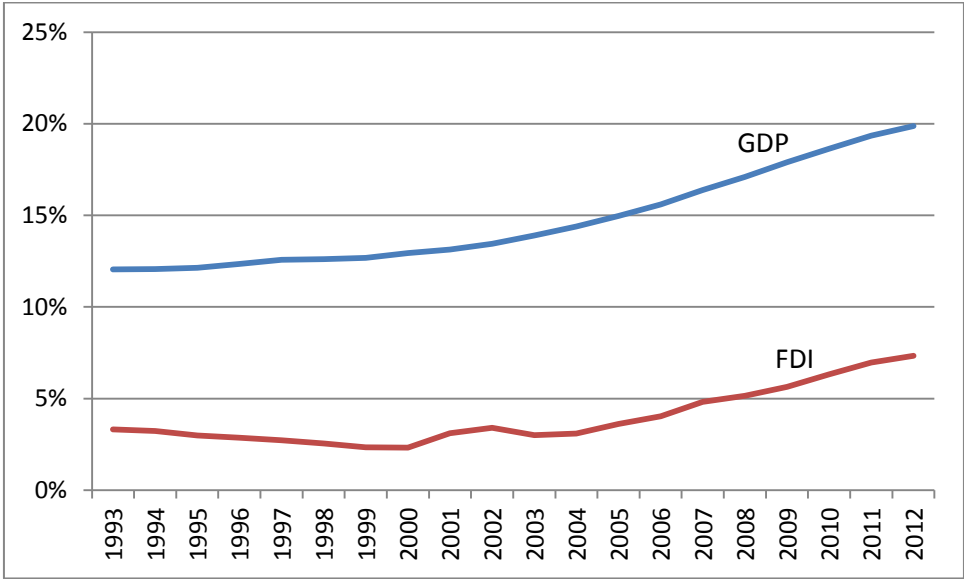
Source: EFW database, [www.freetheworld.com](http://www.freetheworld.com), Retrieved January 20, 2014

**Figure 2 Research Framework and Hypotheses: cross-border acquisition from EMs to developed countries**



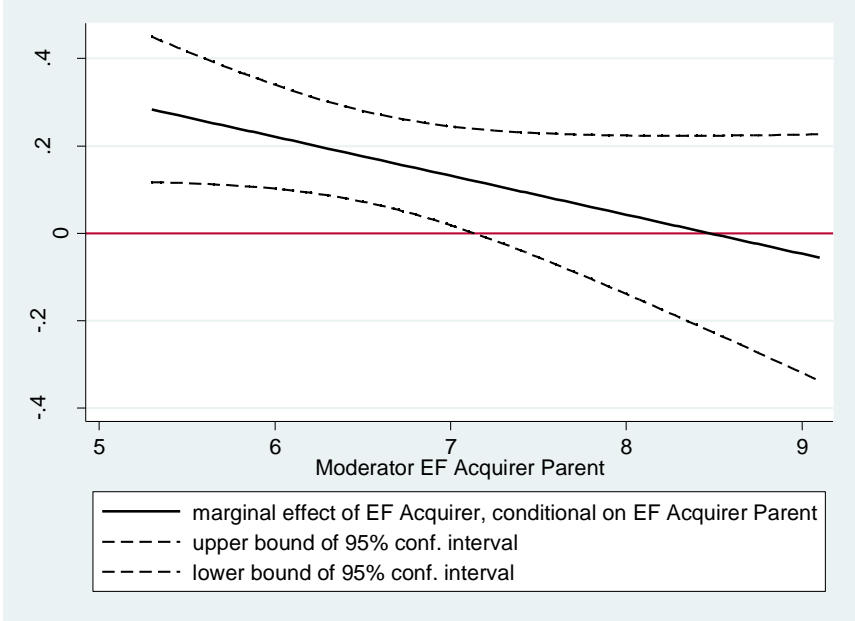


**Figure 3 The share of ten emerging markets' GDP and OFDI in the world**

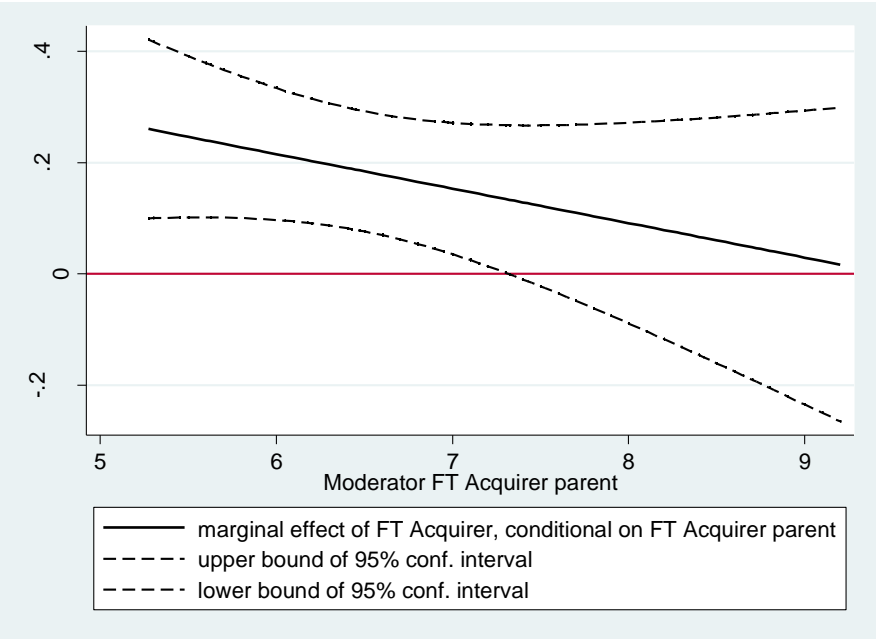


Source: authors' own calculation based on data from UNCTAD.

**Figure 4 Moderating effect of FE Acquirer parent on marginal effect of EF acquirer**



**Figure 5 Moderating effect of FT Acquire parent on marginal effect of FT acquirer**



**Table 1. Descriptive statistics and correlation matrix of independent variables**

	Mean	Std. Dev.	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 Acquisition completion	0.695	0.460	0	1	1													
2 EF Acquirer parent	6.588	0.609	4.4	9	0.070	1												
3 EF Acquirer	6.497	0.486	4.4	8.9	0.088	0.632	1											
4 EF differ target-parent	1.472	0.675	-2.5	4.1	-0.037	-0.759	-0.429	1										
5 EF differ target-acquirer	1.563	0.589	-1.1	4.1	-0.043	-0.357	-0.664	0.716	1									
6 EF Target	8.061	0.451	5.6	8.9	0.039	0.216	0.212	0.472	0.590	1								
7 Relatedness	0.278	0.448	0	1	0.016	0.003	0.018	-0.026	-0.042	-0.036	1							
8 Experience	0.438	0.496	0	1	0.140	-0.037	0.002	0.020	-0.017	-0.020	-0.041	1						
9 Advisor	0.178	0.382	0	1	0.118	-0.012	0.000	-0.001	-0.013	-0.017	0.024	0.107	1					
10 SOE acquirer	0.015	0.120	0	1	-0.057	-0.077	-0.078	0.071	0.067	0.002	0.001	-0.020	-0.015	1				
11 SOE target	0.005	0.068	0	1	0.009	-0.012	-0.015	0.009	0.010	-0.003	-0.008	-0.004	0.002	0.041	1			
12 Target GDP (USD Trillion)	3.579	4.543	0.019	12	0.037	-0.056	-0.072	0.065	0.076	0.021	0.018	0.009	-0.014	-0.036	-0.027	1		
13 High-tech	0.645	0.478	0	1	0.030	0.003	0.013	-0.026	-0.037	-0.035	0.028	-0.021	-0.019	-0.027	-0.022	0.081	1	
14 Natural resource	0.142	0.349	0	1	-0.123	-0.066	-0.038	0.101	0.080	0.063	0.044	0.050	0.064	0.038	-0.019	-0.154	-0.353	1

Note: The statistics of the industrial variables are not included due to the constraint of the space. They are available upon request.

**Table 2. Logit regression result**

	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>	<b>Model 5</b>	<b>Model 6</b>	<b>Model 7</b>	<b>Model 8</b>
<b>FT Acquirer</b>	0.193*** (0.042)		0.199*** (0.041)		0.750** (0.350)			
<b>FT Perent</b>		0.113*** (0.033)		0.125*** (0.032)	0.573* (0.330)			
<b>FT Acquirer Parent* FT Acquirer</b>						-0.0878* (0.053)		
<b>FT differ target-parent</b>							-0.0743** (0.029)	
<b>FT differ target-acquirer</b>								-0.109*** (0.034)
<b>FT Target</b>	0.00878 (0.048)	0.0222 (0.048)	0.114*** (0.044)	0.125*** (0.044)				
<b>Relatedness</b>	0.0816* (0.043)	0.0794* (0.043)	0.0809* (0.043)	0.0788* (0.043)	0.0804* (0.043)	0.0780* (0.043)	0.0788* (0.043)	0.0786* (0.043)
<b>Experience</b>	0.368*** (0.039)	0.368*** (0.039)	0.376*** (0.039)	0.387*** (0.039)	0.395*** (0.039)	0.370*** (0.039)	0.370*** (0.039)	0.362*** (0.039)
<b>Advisor</b>	0.480*** (0.054)	0.474*** (0.054)	0.471*** (0.054)	0.453*** (0.054)	0.449*** (0.054)	0.473*** (0.055)	0.476*** (0.054)	0.480*** (0.054)
<b>SOE acquirer</b>	-0.661*** (0.186)	-0.591*** (0.188)	-0.604*** (0.187)	-0.560*** (0.187)	-0.571*** (0.187)	-0.575*** (0.188)	-0.627*** (0.187)	-0.629*** (0.187)
<b>SOE target</b>	0.419 (0.481)	0.444 (0.485)	0.439 (0.483)	0.453 (0.475)	0.449 (0.474)	0.452 (0.485)	0.436 (0.484)	0.436 (0.485)
<b>Log_Target GDP</b>	0.0196 (0.012)	0.0269** (0.012)	0.0245** (0.012)	0.0272** (0.012)	0.0249** (0.012)	0.0255** (0.012)	0.0198* (0.012)	0.0204* (0.012)
<b>High-tech</b>	0.0621 (0.066)	0.0439 (0.066)	0.0529 (0.066)	0.0327 (0.066)	0.041 (0.066)	0.0457 (0.067)	0.0625 (0.066)	0.058 (0.066)
<b>Natural resource</b>	-0.311*** (0.070)	-0.323*** (0.070)	-0.312*** (0.071)	-0.392*** (0.069)	-0.380*** (0.069)	-0.314*** (0.070)	-0.290*** (0.070)	-0.292*** (0.070)
<b>Retail</b>	0.142 (0.122)	0.119 (0.123)	0.141 (0.123)	0.112 (0.122)	0.134 (0.122)	0.123 (0.123)	0.151 (0.122)	0.14 (0.122)
<b>Finance</b>	0.0354 (0.071)	0.0401 (0.072)	0.0404 (0.072)	0.0311 (0.071)	0.0305 (0.071)	0.055 (0.072)	0.0522 (0.072)	0.0516 (0.071)
<b>Telecom</b>	-0.0143	-0.00834	-0.0128	0.00127	-0.00433	-0.0111	-0.00885	-0.00374

	(0.127)	(0.127)	(0.128)	(0.127)	(0.128)	(0.128)	(0.128)	(0.127)
<b>Energy</b>	-0.236***	-0.210**	-0.219***	-0.205**	-0.212**	-0.212**	-0.238***	-0.235***
	(0.083)	(0.084)	(0.084)	(0.083)	(0.084)	(0.084)	(0.084)	(0.083)
<b>Consumer products and service</b>	0.177*	0.15	0.158*	0.14	0.15	0.153*	0.178*	0.178*
	(0.091)	(0.092)	(0.092)	(0.091)	(0.091)	(0.092)	(0.091)	(0.091)
<b>Health care</b>	0.06	0.06	0.06	0.04	0.04	0.06	0.06	0.06
	(0.097)	(0.097)	(0.097)	(0.096)	(0.096)	(0.097)	(0.097)	(0.097)
<b>Media</b>	0.11	0.08	0.09	0.05	0.07	0.08	0.10	0.10
	(0.101)	(0.101)	(0.101)	(0.101)	(0.101)	(0.101)	(0.101)	(0.101)
<b>Consumer Staples</b>	0.119	0.121	0.125	0.121	0.127	0.113	0.112	0.108
	(0.079)	(0.080)	(0.080)	(0.079)	(0.079)	(0.080)	(0.080)	(0.080)
<b>Real estate</b>	0.465***	0.470***	0.422**	0.377**	0.326*	0.466***	0.458***	0.524***
	(0.169)	(0.176)	(0.171)	(0.175)	(0.169)	(0.177)	(0.170)	(0.175)
<b>y1985</b>	0.38	0.62	0.49			0.72	0.41	0.47
	(0.742)	(0.735)	(0.748)			(0.739)	(0.748)	(0.741)
<b>y1990</b>	0.109	0.237	0.16			0.336	0.136	0.173
	(0.241)	(0.245)	(0.243)			(0.256)	(0.242)	(0.243)
<b>y1995</b>	0.0729	0.0514	0.0442			0.137	0.0748	0.0879
	(0.129)	(0.131)	(0.130)			(0.142)	(0.129)	(0.129)
<b>y1996</b>	0.201	0.139	0.138			0.18	0.179	0.2
	(0.126)	(0.127)	(0.127)			(0.133)	(0.126)	(0.126)
<b>y1997</b>	0.201	0.152	0.143			0.172	0.185	0.209*
	(0.124)	(0.125)	(0.125)			(0.127)	(0.124)	(0.124)
<b>y1998</b>	0.393***	0.365***	0.349***			0.386***	0.405***	0.432***
	(0.131)	(0.134)	(0.134)			(0.133)	(0.132)	(0.132)
<b>y1999</b>	0.286**	0.235*	0.232*			0.259**	0.288**	0.305**
	(0.122)	(0.125)	(0.124)			(0.125)	(0.122)	(0.123)
<b>y2000</b>	0.357***	0.328***	0.316***			0.344***	0.382***	0.409***
	(0.112)	(0.116)	(0.116)			(0.114)	(0.113)	(0.114)
<b>y2001</b>	0.132	0.157	0.132			0.175	0.157	0.18
	(0.120)	(0.122)	(0.121)			(0.121)	(0.121)	(0.121)
<b>y2002</b>	0.414***	0.431***	0.405***			0.441***	0.440***	0.467***
	(0.132)	(0.134)	(0.134)			(0.133)	(0.133)	(0.133)
<b>y2003</b>	0.317***	0.299**	0.298**			0.308**	0.345***	0.358***
	(0.120)	(0.122)	(0.123)			(0.121)	(0.122)	(0.121)
<b>y2004</b>	0.0682	0.0816	0.0543			0.0847	0.0896	0.119

	(0.103)	(0.105)	(0.105)			(0.104)	(0.104)	(0.104)
<b>y2005</b>	0.359***	0.316***	0.319***			0.327***	0.362***	0.375***
	(0.097)	(0.099)	(0.099)			(0.099)	(0.098)	(0.098)
<b>y2006</b>	0.268***	0.246***	0.244***			0.246***	0.271***	0.283***
	(0.089)	(0.090)	(0.090)			(0.089)	(0.089)	(0.089)
<b>y2007</b>	0.259***	0.240***	0.232***			0.236***	0.261***	0.277***
	(0.083)	(0.084)	(0.084)			(0.084)	(0.084)	(0.084)
<b>y2008</b>	0.148*	0.131*	0.133*			0.127	0.148*	0.152*
	(0.079)	(0.079)	(0.079)			(0.079)	(0.079)	(0.079)
<b>y2009</b>	-0.139*	-0.127	-0.141*			-0.140*	-0.142*	-0.131
	(0.084)	(0.084)	(0.084)			(0.084)	(0.084)	(0.084)
<b>y2010</b>	-0.0106	-0.0161	-0.0198			-0.0252	-0.0225	-0.0171
	(0.080)	(0.081)	(0.080)			(0.081)	(0.080)	(0.080)
<b>Constant</b>	0.140*	-1.156***	-0.759*	-1.891***	-1.514***	-4.711**	0.242***	0.298***
	(0.081)	(0.428)	(0.408)	(0.398)	(0.378)	(2.164)	(0.090)	(0.094)
<b>Observations</b>	5174	5169	5151	5169	5151	5146	5151	5169
<b>chi-square test</b>	366.4	388.8	376.6	335.5	323.5	389.5	370.2	376.7
<b>Log likelihood test</b>	-2929	-2915	-2912	-2941	-2938	-2902	-2915	-2921
<b>Correct prediction ratio</b>	71.7%	72.0%	72.0%	72.0%	71.4%	72.2%	72.0%	72.0%

Note: a) Standard errors are shown in parentheses;

b) \*\*\* p<0.01; \*\* p<0.05; and \* p<0.1 all two-tailed tests

**Table 3. Robustness check**

	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>	<b>Model 5</b>	<b>Model 6</b>	<b>Model 7</b>	<b>Model 8</b>
<b>FT Acquirer</b>		0.139*** (0.037)		0.130*** (0.036)		0.578* (0.325)		
<b>FT Perent</b>			0.0664** (0.029)		0.0687** (0.028)	0.408 (0.311)		
<b>FT Acquirer Parent* FT Acquirer</b>						-0.061 (0.049)		
<b>FT differ target-parent</b>							-0.0573** (0.025)	
<b>FT differ target-acquirer</b>								-0.0965*** -0.0295
<b>FT Target</b>		-0.0261 (0.048)	-0.0319 (0.048)	0.0957*** (0.037)	0.0917** (0.037)			
<b>Relatedness</b>	0.0822* (0.043)	0.0833* (0.043)	0.0817* (0.043)	0.0831* (0.043)	0.0812* (0.043)	0.0822* (0.043)	0.0815* (0.043)	0.0831* (0.043)
<b>Experience</b>	0.368*** (0.039)	0.369*** (0.039)	0.373*** (0.039)	0.383*** (0.039)	0.387*** (0.039)	0.374*** (0.039)	0.372*** (0.039)	0.367*** (0.039)
<b>Advisor</b>	0.482*** (0.054)	0.473*** (0.054)	0.473*** (0.055)	0.454*** (0.054)	0.452*** (0.054)	0.474*** (0.055)	0.474*** (0.054)	0.478*** (0.054)
<b>SOE acquirer</b>	-0.658*** (0.186)	-0.652*** (0.186)	-0.645*** (0.186)	-0.625*** (0.185)	-0.616*** (0.185)	-0.590*** (0.188)	-0.648*** (0.186)	-0.658*** (0.186)
<b>SOE target</b>	0.422 (0.480)	0.402 (0.480)	0.411 (0.480)	0.428 (0.472)	0.438 (0.472)	0.472 (0.484)	0.408 (0.480)	0.395 (0.479)
<b>Log_Target GDP</b>	0.0176 (0.012)	0.0175 (0.013)	0.0159 (0.013)	0.0259** (0.013)	0.0242* (0.013)	0.0253** (0.012)	0.0132 (0.012)	0.0102 (0.013)
<b>High-tech</b>	0.1 (0.076)	0.113 (0.077)	0.108 (0.077)	0.113 (0.076)	0.108 (0.076)	0.0814 (0.077)	0.111 (0.077)	0.12 (0.077)
<b>Natural resource</b>	-0.312*** (0.070)	-0.335*** (0.070)	-0.321*** (0.070)	-0.351*** (0.070)	-0.339*** (0.070)	-0.325*** (0.070)	-0.325*** (0.070)	-0.343*** (0.070)



<b>Retail</b>	0.105 (0.128)	0.0677 (0.128)	0.0992 (0.128)	0.051 (0.127)	0.0807 (0.127)	0.0877 (0.128)	0.0994 (0.128)	0.0767 (0.128)
<b>Finance</b>	-0.00374 (0.081)	-0.0236 (0.081)	-0.00111 (0.082)	-0.0525 (0.080)	-0.0314 (0.081)	0.0141 (0.082)	0.0017 (0.081)	-0.0134 (0.081)
<b>Telecom</b>	-0.0517 (0.132)	-0.0658 (0.133)	-0.0565 (0.133)	-0.0713 (0.133)	-0.0635 (0.133)	-0.0431 (0.133)	-0.0569 (0.133)	-0.064 (0.132)
<b>Energy</b>	-0.275*** (0.092)	-0.273*** (0.092)	-0.275*** (0.092)	-0.300*** (0.091)	-0.299*** (0.091)	-0.248*** (0.092)	-0.277*** (0.092)	-0.278*** (0.092)
<b>Consumer products and service</b>	0.179** (0.091)	0.181** (0.092)	0.181** (0.092)	0.169* (0.091)	0.168* (0.091)	0.160* (0.092)	0.185** (0.091)	0.191** (0.091)
<b>Health care</b>	0.02 (0.104)	0.02 (0.104)	0.03 (0.104)	0.00 (0.103)	0.00 (0.103)	0.03 (0.104)	0.02 (0.104)	0.02 (0.104)
<b>Media</b>	0.11 (0.101)	0.11 (0.101)	0.11 (0.101)	0.08 (0.100)	0.08 (0.100)	0.08 (0.101)	0.11 (0.101)	0.11 (0.101)
<b>Consumer Staples</b>	0.081 (0.088)	0.0512 (0.089)	0.0692 (0.088)	0.0296 (0.088)	0.0469 (0.087)	0.0817 (0.089)	0.0681 (0.088)	0.0544 (0.089)
<b>Real estate</b>	0.463*** (0.169)	0.507*** (0.176)	0.452*** (0.170)	0.417** (0.174)	0.358** (0.169)	0.461*** (0.177)	0.459*** (0.170)	0.527*** (0.176)
<b>y1985</b>	0.38 (0.742)	0.67 (0.738)	0.50 (0.749)			0.73 (0.741)	0.51 (0.751)	0.64 (0.747)
<b>y1990</b>	0.108 (0.241)	0.186 (0.248)	0.148 (0.246)			0.365 (0.261)	0.164 (0.244)	0.222 (0.246)
<b>y1995</b>	0.0741 (0.129)	0.0929 (0.137)	0.0891 (0.137)			0.138 (0.139)	0.114 (0.131)	0.159 (0.132)
<b>y1996</b>	0.203 (0.126)	0.171 (0.133)	0.182 (0.133)			0.186 (0.131)	0.207 (0.127)	0.248** (0.126)
<b>y1997</b>	0.199 (0.124)	0.185 (0.131)	0.184 (0.132)			0.179 (0.126)	0.210* (0.125)	0.259** (0.125)
<b>y1998</b>	0.389*** (0.132)	0.381*** (0.141)	0.389*** (0.140)			0.394*** (0.133)	0.418*** (0.133)	0.461*** (0.134)
<b>y1999</b>	0.280**	0.277**	0.280**			0.257**	0.310**	0.357***

	(0.122)	(0.133)	(0.133)			(0.125)	(0.124)	(0.125)
<b>y2000</b>	0.344***	0.383***	0.366***			0.340***	0.391***	0.447***
	(0.113)	(0.123)	(0.123)			(0.114)	(0.116)	(0.118)
<b>y2001</b>	0.127	0.142	0.14			0.181	0.165	0.210*
	(0.120)	(0.129)	(0.129)			(0.122)	(0.122)	(0.123)
<b>y2002</b>	0.413***	0.423***	0.421***			0.444***	0.444***	0.485***
	(0.132)	(0.138)	(0.138)			(0.133)	(0.133)	(0.134)
<b>y2003</b>	0.311***	0.323**	0.330***			0.314***	0.350***	0.378***
	(0.120)	(0.126)	(0.126)			(0.121)	(0.122)	(0.122)
<b>y2004</b>	0.0665	0.109	0.0849			0.0876	0.103	0.154
	(0.103)	(0.109)	(0.109)			(0.104)	(0.105)	(0.107)
<b>y2005</b>	0.355***	0.379***	0.366***			0.333***	0.379***	0.412***
	(0.098)	(0.101)	(0.101)			(0.098)	(0.099)	(0.099)
<b>y2006</b>	0.265***	0.298***	0.279***			0.224**	0.290***	0.323***
	(0.089)	(0.092)	(0.092)			(0.090)	(0.090)	(0.091)
<b>y2007</b>	0.257***	0.289***	0.268***			0.249***	0.279***	0.313***
	(0.083)	(0.087)	(0.086)			(0.084)	(0.085)	(0.086)
<b>y2008</b>	0.146*	0.181**	0.165**			0.140*	0.172**	0.197**
	(0.079)	(0.081)	(0.081)			(0.079)	(0.080)	(0.081)
<b>y2009</b>	-0.138*	-0.116	-0.134			-0.138	-0.128	-0.103
	(0.084)	(0.085)	(0.085)			(0.084)	(0.084)	(0.085)
<b>y2010</b>	-0.0118	-0.0106	-0.0199			-0.0201	-0.0196	-0.00973
	(0.080)	(0.080)	(0.080)			(0.081)	(0.080)	(0.080)
<b>Constant</b>	0.142*	-0.59	-0.06	-1.373***	-0.936***	-3.702*	0.207**	0.253***
	(0.081)	(0.462)	(0.431)	(0.382)	(0.351)	(2.022)	(0.085)	(0.087)
<b>Observations</b>	5,174	5,169	5,151	5,169	5,151	5,148	5,151	5,169
<b>chi-square test</b>	367.4	381.7	370.2	322.5	311.7	391.1	369.9	378.2
<b>Log likelihood test</b>	-2929	-2918	-2915	-2948	-2944	-2903	-2915	-2920
<b>Correct prediction ratio</b>	71.74%	71.99%	71.93%	71.58%	71.44%	72.22%	71.99%	72.08%

Note: a) Standard errors are shown in parentheses;

b) \*\*\* p<0.01; \*\* p<0.05; and \* p<0.1 all two-tailed tests.