ENTRY MODE CHOICE IN EMERGING MARKETS: IS THERE ANY DIFFERENCE BETWEEN EMERGING AND DEVELOPED COUNTRY MULTINATIONALS?*

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Published in: *European Journal of International Management* 15 (4), 539-563. 2021

* Authors acknowledge the financial support provided by the Spanish Ministry of Economy, Industry and Competitiveness (project ECO2017-86101-P) and by Fundación Banco Sabadell, through the Cátedra de Crecimiento e Internacionalización Empresarial.

Abstract

Previous research has documented that, when investing abroad, emerging market multinationals (EMMs) have a higher tolerance for risk than developed country multinationals (DCMs), highlighting their propensity to make bold acquisitions and to form alliance networks. In this paper we examine the differences between EMMs and DCMs when it comes to choosing between these options of external growth. We argue that EMMs have a higher propensity than DCMs to choose joint ownership options and, among them, those involving complex partnerships, so as to leverage their routines and imprinted capabilities to deal with partners. In order to carry out the study, we consider the differences in entry mode patterns in emerging markets by multinationals from US, European Union, BRIC, and Next-Eleven countries between 1996 and 2012. Our results supported our hypotheses.

Keywords

Joint ventures, acquisitions, emerging multinationals, developed multinationals, internationalization, investment risk, relational risk, differences in entry mode patterns, BRIC countries, Next-Eleven countries, European Union

1. Introduction

Since the mid 1990s, emerging markets have become a major target for firms all over the world. Their growing importance, coupled with the rise of emerging market multinationals (EMMs), have generated a large number of studies about different issues related to international expansion from and to emerging economies (Aguilera et al., 2017; Buckley et al., 2018; Contractor et al., 2014; Gammeltoft et al., 2010; Hobdari et al.,

2017; Hoskisson et al., 2000; Luo and Zhang, 2016; Nayir and Vaiman, 2012; Nielsen et al., 2017; Oesterle and Röber, 2017; Paul and Benito, 2018; Wright et al., 2005).

The field of the internationalization strategy of firms from emerging economies is, undoubtedly, a mainstream one and contains a large number of works analyzing different issues. Among these issues, the location choice and the entry strategy are both tackled in many papers. Those works suggest that EMMs are more prone to invest in risky countries (Cuervo-Cazurra and Genc, 2008) and to use risky entry modes (Guillén and García-Canal, 2013). They dare to make bold acquisitions (Cuervo-Cazurra, 2012; Luo and Tung, 2007; Madhok and Keyhani, 2012; Rui and Yip, 2008) and feel comfortable within network structures (Kotabe and Kothari, 2016; Peng and Luo, 2000).

This preference for methods based on external growth is usually explained based on the poor resource endowment of their home countries. In effect, EMMs expand abroad not only to exploit market opportunities but also to upgrade their capabilities (Cui et al., 2014; Guillén and García-Canal, 2009; Hobdari et al., 2017; Luo and Tung, 2007; 2018). That is why on some occasions the international expansion of EMMs has been seen as a springboard to acquire strategic resources and reduce their institutional and market constraints at home (Luo and Tung, 2007; 2018). By so doing, they overcome the disadvantage of being latecomers. This fact would explain why EMMs have a preference for entry modes based on external growth (alliances and acquisitions). However, this literature is not of much help to explain the choice between different options of external growth, because all of them allow the firm to gain access to external knowledge. In addition, all of them entail risks. Full acquisitions entail higher investment risks than entry modes based on partners, because the firm has to commit 100% of the required resources. However, relying on partners entails a relational risk that is not present in full acquisitions. To fill this gap, our paper tries to deepen in this issue. Specifically, we try

to answer if there is any difference between EMMs and DCMs regarding the decision to go alone or rely on external partners, as well as the decision about the number of partners involved in the operation.

We argue in this paper that EMMs do not blindly take more risks than DCMs when they expand abroad through external growth. On the contrary, they take the risks they are better prepared to handle, which are the ones related to relational risk, and that is why we expect EMMs to opt for operations involving joint ownership and, specially, those involving several partners. We build on previous research on the knowledge-based view of the firm and on organizational imprinting theory, arguing that the routines accumulated in the home country condition the entry modes adopted abroad.

Due to the scarce number of studies focusing on the entry of EMMs into other emerging economies (Wright et al., 2005), and in order to avoid the biases that could be associated to technological catch up, we focus only on entries into emerging countries. In this way, we analyze the entry patterns of EMMs and DCMs in the most prominent emerging countries, using the SDC Platinum database as our source of evidence.

2. Country of origin, organizational learning, and the external growth mode chosen

The country of origin exerts an important influence on a firm's international expansion (Cuervo-Cazurra, 2011; Cuervo-Cazurra et al., 2018; Estrin et al., 2018; Gaur et al., 2018; Hobdari et al., 2017; Hu, 1992; Luo and Wang, 2012; Narula, 2012; Yu et al., 2007). Not only is this the environment where the firm develops its initial competitive advantages, but also the environment under which operational routines are developed (Kogut and

Zander, 1993). However, there are important differences between developed and developing countries regarding the influence exerted by the home country.

Firms from developed countries face tough competition, have ample resources available (Kim et al., 2015), and operate within strong institutions (North, 1990). Under these conditions, successful firms from developed countries accumulate strong competitive advantages that can be exploited in other markets or transferred to other firms through acquisitions (Buckley and Casson, 1976; Delios and Beamish, 2001). Generally speaking, it is only when they lack specific resources or are approaching very distant markets that they may feel the need to enter into alliances (Hennart, 1988; Stopford and Wells, 1972).

In contrast, firms from emerging countries face less intense competition, but suffer from infrastructure and institutional voids that limit their corporate development (Gao et al., 2017). Under these conditions, successful firms from developing countries have accumulated capabilities and routines to deal with weak institutional and infrastructure voids, although they lack of state-of-the-art technologies (Guillén and García-Canal, 2009; Ramamurti, 2009). This is why their international expansion often involves a process of resource upgrading. In this way, firms from the most dynamic emerging markets have the advantage that the potential of the domestic market coupled with their institutional idiosyncrasies favor the formation of alliances with international partners that are willing to offer technology in exchange for gaining access to an established distribution network (Guillén and García-Canal, 2009).

For these reasons, EMMs and DCMs have a different orientation to strategic alliances. EMMs use alliances for dealing with institutional voids and a lack of resources, and also as a means to gain access to foreign technology (Guillén and García-Canal, 2013). In addition, it must be taken into account that the absence of strong institutions hinders the

functioning of their domestic markets (North, 1990; Williamson, 2000). This fact alters the choice of governance mechanisms: market, hierarchies and hybrids. As a consequence, the choice of governance mechanisms in emerging markets is biased to acquisitions and, especially alliances, because acquisitions are only advisable for activities associated to high levels of asset specificity (Williamson, 1985).

Thus, the lack of efficient markets in emerging countries make firms more willing to look for potential partners to undertake the activities in which they are interested. For example, the Brazilian company Natura Cosméticos (Guillén and García-Canal, 2013) created alliances in its home country to secure the supply of raw materials for which there was not a proper market. Essential pillars of Natura´s business model are ecology, sustainability, and social responsibility. By launching the Ekos product line, Natura turned itself into a leader in sustainability, using Brazil's phenomenal biodiversity as the sole source of ingredients. For the development of this product line, Natura has established 19 alliances with indigenous communities in the Amazon basin to source herbal raw materials and vegetable oils. Natura also rely on a network of independent sales consultants to sell their products directly to its customers. Another good example of the use of alliances to support expansion is the case of Acer (Mathews, 2002; Guillén and García-Canal, 2013). Acer reinvented itself, turning from being a contract manufacturer to become a global brand in computers by creating a network of subsidiaries, joint ventures (JVs) and outsourcing agreements (plus some acquisitions) covering the global value chain. The interesting thing is that, even though these partnerships were a means to overcome financial and technological constraints derived from being located in an emerging country, the company found them as an optimal organizational form which aligns the incentives of all of the participants in the value chain.

As a consequence, entering into alliances and managing partners and networks is part of the daily routines of firms from emerging countries, since their early days; in such a way that they have an imprinted capability to manage partnerships. According to imprinting theory (Stinchcombe, 1965), initial conditions during the early years of the firm, coupled with personal characteristics of the founders, leave a persistent mark on its structure and processes. Although some events at later stages of the firm can also impact the firm's structure and processes, these events have to occur at specific moments of time in which the organization is especially sensitive to external influences (Marquis and Tilcsik, 2013). Thus, once firms have imprinted a preference for alliances and have developed routines for their use, this preference become persistent over time (García-Canal et al., 2014). In contrast, firms from developed countries, due to their strong institutions and more efficient markets, are less forced to enter into alliances until later stages of their corporate expansion, which is why they often consider alliances as a second-best entry mode; i.e. something they only use when they lack a relevant resource (Stopford and Wells, 1972). Managing alliances is, therefore, not a part of their imprinted capabilities and routines, so these firms have a higher preference for full acquisitions than EMMs.

As said before, EMMs also use acquisitions in their international expansion, although they tend to use them to fill resource gaps in terms of technology and brands (Buckley et al., 2014; Rui and Yip, 2008). However, once a firm chooses an acquisition as its entry mode, managers should think about the percentage of equity to be acquired. From this perspective, there is a large body of literature that distinguishes between total and partial acquisitions as the entry mode in international markets (e.g. Chen and Hennart, 2004; Hennart and Larimo, 1998; Lahiri et al., 2014; Phene et al., 2012; Pinto et al., 2017), and which has studied how this difference affects performance (Ahammad et al., 2016; Akhigbe et al., 2004; García-Canal and Sánchez-Lorda, 2013; Meschi et al., 2018;

Slangen, 2006), longevity (Hennart et al., 1998) or learning from the acquired firm (Ahammad et al., 2017; Jakobsen and Meyer, 2007; Phene et al., 2012), among other many aspects that could influence and be influenced by the percentage acquired.

For several reasons, partial acquisitions can be assimilated to partnerships. Traditionally, partial acquisitions have been seen as a means to reduce the amount of resources committed, so they entail greater flexibility than total acquisitions. However, partial ownership also means that the bidder must share the profits and decision-making power with the other shareholders (Contractor et al., 2014). In contrast, total acquisitions involve a higher level of risk and a higher commitment of resources, since they involve buying the entire target firm, with the acquirer becoming the only owner. Thus, total acquisitions have a greater investment risk than partial acquisitions. Additionally, while in total acquisitions the acquirer does not need to deal with a partner, in partial acquisitions some sort of collaboration is necessary, as the acquired firm belongs to both the bidder and the remaining shareholders of the target firm. In this sense, although there are important differences between partial acquisitions and JVs (Chari and Chang, 2009), there are also similarities, because in both of them, collaboration among partners is necessary. Thus, like JVs, partial acquisitions entail relational risk, because the partners may have their own goals and behave opportunistically. In fact, many papers consider both entry modes as similar means for gaining access to a specific market (Arslan and Larimo, 2015; Chen, 2008; Chen and Hennart, 2004; Jakobsen and Meyer, 2007). Thus, in partial acquisitions, the bidder needs to possess the capabilities to collaborate and the imprinted routines commented above can be leveraged to deal with the remaining shareholders of the acquired firm.

Summing up, total acquisitions entail a higher level of investment risks, while partial acquisitions and JVs (with only one or, specially, more than one partner) involve higher

relational risks. As EMMs have the imprinted capabilities needed to deal with partners, they will prefer to face relational risk rather than investment risk when entering in a host country. According to this, we formulate the following hypothesis:

H1 EMMs have a higher propensity than DCMs to choose partial acquisitions or JVs instead of total acquisitions when entering into other emerging countries.

Firms, such as EMMs, that have routines and imprinted capabilities for dealing with partners, can be expected to be more willing to enter into alliances, even if they are complex, in order to leverage such routines and capabilities. However, firms, such as DCMs, that are not so well prepared to manage alliances will be reluctant to engage in more complex alliances. In this sense, multiparty alliances are more complex than dyadic ones (Albers et al., 2015). Research based on Transaction Cost Economics (TCE) has pointed out that an increase in the number of partners in international JVs will increase governance costs by hindering monitoring and information sharing (García-Canal, 1996; Hennart and Zeng, 2005; Zeng and Chen, 2003). Moreover, the difficulties and costs associated with monitoring partners are greater when partners come from different countries (Barkema and Vermeulen, 1997). In addition, a greater number of partners intensifies coordination problems, as there are more interests to harmonize (Gulati and Singh, 1998) and conflicts between subgroups of partners may arise (Heidl et al., 2014; Mohr et al., 2016). Furthermore, the incentives for free-riding behavior are greater when partners are more numerous (Fonti et al., 2017; García-Canal et al., 2003; García-Canal and Sánchez-Lorda, 2007; Grandori, 1987; Parkhe, 1993; Stigler, 1974). García-Canal et al. (2003) indicate that it is more difficult to build a relationship based on trust in multiparty alliances. For all these reasons, it is more difficult to manage a multiparty JV than a dyadic one. Within this context, we expect that EMMs, which are more used to

rely on external partners, will be more willing to enter into multiparty alliances than DCMs.

We also expect EMMs to be more willing to opt for partial acquisitions than DCMs. Even though partial acquisitions reduce investment risk they involve complex negotiations with the selling shareholders as well as the remaining ones. Even if they are the same entity, the negotiation becomes more complex than a simple alliance, because the bidder have to fix a price for the target while at the same time it has to negotiate the terms under which the company is going to be managed. As EMMs are more equipped with routines to deal with partners than are DCMs, due to EMMs' previous experience in their home country, we expect them to be more willing to enter into partial acquisitions than DCMs. Taking all of these argumentations into account, we formulate the following hypothesis:

H2. EMMs have a higher propensity than DCMs to choose partial acquisitions or multiparty JVs instead of dyadic JVs when entering into other emerging countries.

3. Empirical setting, data, and method

Empirical setting

We focus our analysis on the acquisitions and JVs carried out by firms from emerging and developed countries in emerging economies. Emerging economies are rapid-growth countries using economic liberalization as the primary engine of growth (Hoskisson et al., 2000), and in which government policies favor the adoption of a free-market system (Arnold and Quelch, 1998). Coussy and Jaffrelot (2009) have developed a typology of emerging countries and suggest that such emerging economies have the following three characteristics: (1) they are latecomers to development, (2) they have very high growth rates, and (3) their growth challenges the economic situation of developed countries.

While it is not clear which countries are emerging, the so-called BRIC countries (Brazil, Russia, India, and China) are considered some of the largest emerging markets. Other commonly identified emerging markets include Mexico, Turkey, South Korea and all the so-called Next-Eleven (henceforth N11) countries. All of these emerging markets are viewed as having great economic development potential that could surpass BRIC countries (Wu and Lin, 2008). Thus, we consider companies from BRIC and N11 countries in order to test their international expansion.

In order to compare the strategy of these companies with those from developed markets, we consider operations carried out by companies from the USA and the European Union.

Data

Our initial sample includes the international acquisitions and JVs carried out by firms from EU15[1], USA, BRIC, and N11[2] countries between 1996 and 2012. Domestic acquisitions and JVs are excluded from our sample.

In order to build our sample, we searched in the SDC database for all of the international JVs signed by a company from one of these countries, as well as those international mergers and acquisitions in which one of these firms were identified by SDC as the bidder, and the target was located in an emerging economy (i.e. BRIC or N11 country). The SDC database is the most reliable source for identifying mergers and acquisitions as well as JVs worldwide, and has been widely used in the fields of Strategy, Management, and Finance.

[1] These countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and United Kingdom.

[2] These countries are Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey, and Vietnam.

A total of 9,176 acquisitions[3] and 2,794 JVs were identified for the studied period. Most of the JVs were established in China (41.3%) and India (18.5%), while acquisitions were carried out mainly in Brazil (19%), India (18.2%), China (17.8%), and Russia (12.4%) —see Table 1.

Insert Table 1 about here

Table 2 shows the breakdown of the number of operations by home country. The highest number of operations in BRIC and N11 countries, both acquisitions and JVs, were carried out by US and UK multinationals. Regarding emerging firms, those from South Korea were the most active in both entry modes. As Figure 1 shows, acquisitions in the BRIC and N11 countries have shown a growing trend over the period analyzed, except in the years 2002, 2003, and 2009. It is notable that JVs were more common in the 1990s.

Insert Table 2 about here

Insert Figure 1 about here

Methods

When a firm enters into a new country by means of external growth, managers face two main decisions regarding the ownership structure used: 1) going alone or with other partners; and 2) if the operation includes partners, how many are needed (one or more). Thus, when analyzing the propensity to use different modes of entry, there is an inherent self-selection bias that cannot be corrected when using simple regression analyses (Hamilton and Nickerson, 2003). Performing such analyses would therefore result in biased coefficient estimates, due to omitted variables that would affect both the decision

[3] Following the U.S. Bureau of Economic Analysis (2004) we consider acquisitions that involve the acquisition of 10 percent or more of a foreign company.

to go alone or with partners and the decision about the number of partners. To control for this self-selection bias, we used a two-stage Heckman-Probit model (Van de Ven and van Praag, 1981), whose first stage predicts the propensity to use joint ownership options, and whose second stage predicts the propensity to enter with more than one partner. Therefore, in order to test our hypotheses, we built two dichotomous dependent variables, one for the first stage of the model and one for the second stage.

The procedure of Van de Ven and van Praag (1981) seems appropriate, since when using a dichotomous variable in the second stage it is not possible to use the procedure of Heckman (1978; 1979). Specifically we used the heckprobit procedure of Stata.

First Stage – Joint ownership decision

The dependent variable of this stage is *Joint ownership*, a dummy variable valued 1 when the entry mode involves joint ownership, i. e., JVs or partial acquisitions, and 0 in the case of total acquisitions. Following previous studies on entry mode research (e.g. Hennart, 1991; Makino and Beamish, 1998; Makino and Neupert, 2000; Chen, 2008; Malhotra et al., 2016), we consider an acquisition as total if the percentage acquired is at least 95% of the target company.

Independent variable

In order to test whether the entry mode chosen by EMMs differs from that of DCMs when entering an emerging country, we used *Emerging multinational*, a dummy variable valued as 1 if the home country of the firm expanding is a BRIC or N11 country, being 0 otherwise.

Control variables

We used different control variables at the country, firm, and industry levels that may have effects on the choice of entry mode, as well as year and country of origin dummies that control for fixed effects. At the country level, the following variables were included:

Policy stability: This variable measures policy stability in the host country. We used the POLCONV policy stability index developed by Henisz (2000). The values of this index vary between 0 and 1, with 0 being the lowest level of policy stability and the 1 being the highest level.

Cultural distance: This variable measures the existing distance between the national cultures of the home and host countries. We used Kogut and Singh's (1988) index, employing updated measurements of Hofstede (2001) as input. Specifically, we used four cultural dimensions (power distance, masculinity, uncertainty avoidance, and individualism).

Institutional distance: This variable measures the distance between the home country and the host country across the six institutional dimensions of Kauffmann et al. (2010) from the World Bank's Governance Indicators. In order to compute this variable, we first obtained the absolute value of the difference for each indicator for each pair of countries (Voice and Accountability, Policy Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption). Specifically, for each pair of countries (i,j) and each indicator (k), we used the equation:

$$ABS\_VALUE\ (i,j,k) = |indicator(k,i) - indicator(k,j)|$$

Then, we used the Euclidean distance to calculate the distance between each pair of countries using the equation below:

$$DISTANCE\ (country\ i, country\ j) = \sqrt{\sum_{k=1}^{6} ABS\_VALUE(i,j,k)^2}$$

GDP: The Gross Domestic Product of the host country, in the same year of the operation. This variable is a proxy of market size.

GDP growth: The Gross Domestic Product growth at year 2000 constant prices of host country divided by the maximum value of GDP.

Inward FDI: Foreign direct investment net inflows of the host country, measured as a percentage of GDP. This variable is a proxy of the host country's attractiveness to foreign investors.

Imports plus exports: Imports plus exports as a percentage of GDP of host country to account for openness to trade.

At the firm level, the following variables were included:

State: Dummy variable valued as 1 if there is State ownership in the investor firm and valued as 0 otherwise.

Listed target firm: Dummy valued as 1 if the acquired company or, at least one partner from the alliance in addition to the one studied, was listed on the Stock Exchange.

Size: Total assets of investor firm divided by the maximum value of total assets from Capital IQ database.

Total debt: Total debt of investor firm divided by the maximum value of total debt from Capital IQ database.

At the industry level the following variables were included:

Relatedness: Dummy variable valued as 1 if bidder and target firms or partner firms come from the same SIC2 industry and 0 otherwise[4].

[4] Other papers, like Benito-Osorio et al. (2014) or Mowery et al. (1998) also used the same SIC2 to measure the relatedness.

Manufacturing: Dummy variable coded as 1 if the investor firm belongs to the manufacturing industry.

Infrastructure: Dummy variable coded as 1 if the investor firm belongs to infrastructure industries (construction, transportation, communication, electric, gas, and sanitary service industries), as defined by Fernández-Méndez et al. (2015).

Table 3 contains the measures and data sources of these variables.

Insert Table 3 about here

Second Stage –Complex partnerships decision

Our second dependent variable, *Complex partnerships* is a dummy variable valued 1 in cases of partial acquisitions and multiparty JVs.

Independent variable

As in this stage we are still interested in measuring if the entry mode chosen by EMMs differs from that of DCMs when entering an emerging country, so we used the same *Emerging multinational* variable defined in our first stage.

Control variables

We used the same control variables in the second stage, excluding only *Size* and *Total debt*, which are the instruments for the first stage.

4. Results

Table 4 shows the correlations, descriptive statistics and the Variance Inflation Factors (VIFs) for the main variables used in our models. None of these variables are highly correlated. The mean VIF is below the recommended cut-off value of 10 (Kutner et al., 2004). Hence the multicollinearity is unlikely to affect our results.

Insert Table 4 about here

Table 5 reports the results from two stages of the heckprobit model: those for the *Joint ownership* (first stage) dependent variable and those for the *Complex partnerships* (second stage) dependent variable. In addition, the table shows the value of the coefficients, their standard error, and an indication of their significance level. We may observe that the model offers statistically significant estimates, with chi-square values corresponding to significance levels lower than 0.00001.

Our hypotheses are supported. As shown in Table 5, EMMs clearly prefer joint ownership entry options more than DCMs do, as the coefficient of the variable *Emerging multinational* shows in the first stage. This result confirm our first hypothesis: when entering into other emerging countries, EMMs have a greater preference than DCMs to choose partial acquisitions or JVs instead of total acquisitions.

Moreover, among the joint ownership entry options, firms from emerging countries have a greater preference than DCMs to use multiparty JVs and partial acquisitions (complex partnerships) instead of dyadic JVs, as the coefficient of our independent variable shows in the second stage. Such results, allow us to confirm our second hypothesis.

Insert Table 5 about here

Regarding our control variables, the results of the *Cultural distance* variable have some interest. Our estimations show that firms reduce their preference for partnerships as cultural distance increases. Although this result seems counterintuitive, it is consistent

with previous studies that found the same relationship (Ang et al., 2015; León-Darder et al., 2011; Padmanabhan and Cho, 1996) or even a curvilinear one between cultural distance and ownership (Wang and Schaan, 2008; Xie, 2017). Cultural distance raises the costs and uncertainties associated with working jointly with partners (Padmanabhan and Cho, 1996), increasing relational risks.

Finally, the *Institutional distance* variable has a positive and significant effect on the use of partial acquisitions and multiparty JVs. This result is consistent with the one obtained by Xu et al. (2004). They found that large institutional distance was associated with a lower level of equity ownership. When an EMM perceives a greater *institutional distance*, it feels that it is more exposed to risks related to the uncertainty about the environment, and to the lack of knowledge about the host country. Faced with these greater challenges and risks caused by institutional distance, firms will prefer entry modes with less commitment of resources, i.e. lower investment risks. In this situation, local partners can contribute knowledge of the host country (Lai et al., 2017). However, as Schwens et al. (2011) pointed out, the influence of institutions on entry mode choice is inconclusive. Some studies have obtained a positive relationship between institutional distance and ownership participation (e.g. Choi and Contractor, 2016; Lahiri et al., 2014; Yang, 2015), while in others (such as Liou et al., 2017) the effect is not significant. Even a nonlinear relationship between institutional distance and foreign ownership strategies has been suggested in other studies (e.g. Gaur and Lu, 2007; Malhotra et al., 2011).

To test for the robustness of our results, we ran two alternative models, one considering total acquisitions those in which at least 80% of the target's equity is acquired and another when this percentage is 100%. In addition, besides the 10% cut-off to consider as an acquisition the equity participation acquired in a foreign company, we have also run models with 15% and 20% as cut-off points. Moreover, we also ran a model with all the

acquisitions identified in SDC, irrespective of the percentage. In all these cases the results for the independent variables remained unchanged. These estimations are available from the authors upon request.

5. Discussion and conclusions

This paper analyzes the differences in entry mode patterns when entering emerging markets by DCMs and EMMs. Specifically, we examine their behavior when it comes to choose between different options of external growth. All of these entry modes have different kinds of risks associated. We argue that the routines developed in the home country condition the entry mode adopted abroad, so firms choose the entry mode that entails the risks they are better prepared to handle. For this reason, we expected EMMs to be more willing to expand through partnerships instead of total acquisitions than DCMs, because of their routines and imprinted capabilities to deal with partners. Our results confirmed our hypotheses. These results suggest that EMMs are less concerned with relational risk than are DCMs when entering an emerging country, and that they are more likely than DCMs to enter into collaborative projects (JVs and partial acquisitions) rather than to get involved in operations with a higher level of control (such as total acquisitions) in order to avoid investment risks.

Although the imprinted capabilities of the EMMs seems to be a good explanation to understand their higher propensity to face relational risks, an alternative reason for the EMMs preference for alliances could be the institutional pressures exerted by the government of the home country. Through the approval system and financial policies, the emerging economies' government may favor or discourage certain types of outward foreign direct investment (FDI) (Liu et al., 2005). This creates institutional pressures that push firms towards the choice of JVs to go abroad (Cui and Jiang, 2010; Chung et al.,

2016). In their study on outward FDI entries made by Chinese firms, Chung et al. (2016) found that firms facing greater institutional pressures have a higher propensity to choose outward international JVs than wholly-owned subsidiaries. Even though our estimations include home country dummies, further research is required to rule out this alternative hypothesis.

This work contributes to international management research in several ways. Firstly, we extend the study of internationalization of EMMs to the field of other emerging countries, which is less studied than their expansion to developed countries. Secondly, we also add to the recent literature on the influence of the country of origin on international strategy (Cuervo-Cazurra, 2011; Cuervo-Cazurra et al., 2018). We expand this literature showing that the institutional environment of the country of origin explains cross-country differences in entry mode choices when expanding abroad.

Thirdly, we make a theoretical contribution by applying the theory of organizational imprinting to the field of entry mode. As Kriauciunas and Shinkle (2008) point out, imprinting theory may be useful for understanding observed behavior and the origins of such behavior. That is why some studies have used the insights from organizational imprinting theory in the last years to analyze diverse issues. For example, the impact of current and founding institutional environments on the motivation to accomplish a goal (Shinkle and Kriauciunas, 2012); the influence of home country cultural norms in the way multinationals resolve contractual disputes in foreign markets (White et al., 2013); the effect of founding environments on inward internationalization (Zhao and Ma, 2016); and the institutional imprinting effects on supply chain outsourcing (Davis-Sramek et al., 2017) and on private firm innovations (Maksimov et al., 2017). Imprinting theory has also been used to analyze the influence of early internationalization (García-Canal et al., 2018; Sapienza et al., 2006) and risk taking behavior (Banalieva et al., 2018). However,

to the best of our knowledge, recent research has not applied imprinting theory to explain the entry mode choice. Our study shows that, when expanding to other emerging countries, EMMs exploit their imprinted capabilities for managing alliances, choosing entry modes that involve collaboration with other firms.

Finally, our comparative study of the patterns of expansion of DCMs and EMMs can shed light on the inconclusive results obtained in previous research. Although many papers about the internationalization of EMMs have compared their results with those obtained in papers analyzing the internationalization of DCMs, only a few econometric studies have included both kind of multinationals in the same database. De Beule et al. (2014) find that EMMs acquire less participation in ownership of their acquisitions in Italy than DCMs. However, other studies find that EMMs have a greater propensity to acquire a higher equity participation (Gaffney et al., 2016) or to acquire full ownership (Malhotra et al., 2016) than DCMs when the institutional distance between the home and host countries is higher. These papers have not focused exclusively on emerging countries.

However, there are also mixed results in the scarce literature that compares different entry mode patterns in emerging markets by DCMs and EMMs. Lahiri et al. (2014), focused on acquisitions of service firms in India, found that EMMs have more propensity to carry out total acquisitions than DCMs, particularly in soft services. Contractor et al. (2014) did not find significant differences between EMMs and DCMs in the equity stake in acquisitions carried out in India and China. These mixed and inconclusive results can be partly due to the heterogeneity of the works, both in terms of the host countries considered (one or more, developed, or emerging), and the multinationals under study (different countries of origin and industries). Our paper provides empirical evidence using a large sample of firms from all industries, analyzing the entry into 15 emerging countries, instead of focusing on one or very few, which is the case in most previous studies. Our

results show that there is a greater propensity of EMMs to use more complex entry modes than DCMs, and we provide a theoretical framework to explain it.

This paper is especially relevant to managers of firms who want to enter into emerging markets. In such situations, firms should choose the kind of operation that better allows them to leverage their imprinted capabilities. Thus, managers of multinationals with imprinted capabilities in collaborative projects have the ability to deal with partners and other shareholders of their foreign affiliates and take part in organizational networks. This fact favors dealing with the relational risk associated to a JV or even a partial acquisition. For this reason, firms with imprinted capabilities in managing cooperative projects, and, consequently, better prepared to deal with the risks associated to partnerships, should opt for these types of entry mode, even if they are located in developed countries.

Our study has also some limitations that should be taken into account. First, we only consider BRIC and N11 as emerging countries. Obviously, there are other countries that are also emerging. Expanding this study to other emerging countries could enrich our findings. However, we focused only on emerging countries to avoid the biases that could be associated with technological catch up. Secondly, we do not consider the previous experience of the firm that is expanding abroad due to data limitations, which could definitely affect the final decision regarding the entry mode. Thirdly, to deepen the study of these kinds of decisions, more research comparing entry mode differences between EMMs and DCMs entering developed markets could improve our results. Finally, a topic not sufficiently developed is the effect triggered by the entry mode chosen on the performance of the firm when entering emerging countries.

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Table 1 Acquisitions and JVs in emerging countries

Host country	Acquisitions (%)	Joint ventures (%)	Total (%)
Bangladesh	20 (0,22%)	17 (0,61%)	37 (0,03%)
Brazil	1.741 (18,97%)	208 (7,44%)	1.949 (16,28%)
China	1.636 (17,83%)	1.155 (41,34%)	2.791 (23,32%)
Egypt	127 (1,38%)	25 (0,89%)	152 (1,27%)
India	1.667 (18,17%)	516 (18,47%)	2.183 (18,24%)
Indonesia	298 (3,25%)	91 (3,26%)	389 (3,25%)
Iran	7 (0,08%)	8 (0,29%)	15 (0,13%)
Mexico	904 (9,85%)	125 (4,47%)	1.029 (8,60%)
Nigeria	48 (0,52%)	9 (0,32%)	57 (0,48%)
Pakistan	48 (0,52%)	16 (0,57%)	64 (0,53%)
Philippines	187 (2,04%)	90 (3,22%)	277 (2,31%)
Russia	1.133 (12,35%)	223 (7,98%)	1.356 (11,33%)
South Korea	592 (6,45%)	131 (4,69%)	723 (6,04%)
Turkey	611 (6,66%)	69 (0,18%)	680 (5,68%)
Vietnam	157 (1,71%)	111 (3,97%)	268 (2,24%)
Total	9.176 (100%)	2.794 (100%)	11.970 (100%)

Table 2 Acquisitions and JVs in emerging countries

Home country	Acquisitions (%)	Joint ventures (%)	Total (%)
Austria	105 (1,14%)	16 (0,57%)	121 (1,01%)
Bangladesh	1 (0,01%)	0 (0,00%)	1 (0.01%)
Belgium	123 (1,34%)	35 (1,25%)	158 (1,33%)
Brazil	27 (0,29%)	15 (0,54%)	42 (0,04%)
China	85 (0,93%)	45 (1,61%)	130 (1,09%)
Denmark	105 (1,14%)	15 (0,54%)	120 (1,00%)
Egypt	15 (0,16%)	5 (0,18%)	20 (0,17%)
Finland	137 (1,49%)	47 (1,68%)	184 (1,54%)
France	723 (7,88%)	212 (7,59%)	935 (7,81%)
Germany	657 (7,16%)	255 (9,13%)	912 (7,62%)
Greece	43 (0,47%)	5 (0,18%)	48 (0,40%)
India	104 (1,13%)	43 (1,54%)	147 (1,23%)
Indonesia	9 (0,10%)	22 (0,79%)	31 (0,26%)
Iran	1 (0,01%)	2 (0,07%)	3 (0,03%)
Ireland	63 (0,69%)	9 (0,32%)	72 (0,60%)
Italy	187 (2,04%)	95 (3,40%)	282 (2,36%)
Luxembourg	73 (0,80%)	7 (0,25%)	80 (0,67%)
Mexico	61 (0,66%)	3 (0,11%)	64 (0,53%)
Netherlands	542 (5,91%)	105 (3,76%)	647 (5,41%)
Pakistan	3 (0,03%)	2 (0,07%)	5 (0,04%)
Philippines	30 (0,33%)	10 (0,36%)	40 (0,33%)
Portugal	102	10	112

	(1,11%)	(0,36%)	(0,94%)
Russia	48 (0,52%)	33 (1,18%)	81 (0,68%)
South Korea	212 (2,31%)	162 (5,80%)	374 (3,12%)
Spain	385 (4,20%)	36 (1,29%)	421 (3,52%)
Sweden	233 (2,54%)	53 (1,90%)	286 (2,39%)
Turkey	14 (0,15%)	6 (0,21%)	20 (0,17%)
United Kingdom	1.142 (12,45%)	288 (10,31%)	1.430 (11,95%)
United States	3.943 (42,97%)	1.253 (44,85%)	5.196 (43,41%)
Vietnam	3 (0,03%)	5 (0,18%)	8 (0,07%)
Total	9.176 (100%)	2.794 (100%)	11.970 (100%)

Figure 1 Temporary evolution of acquisitions and JVs in emerging countries

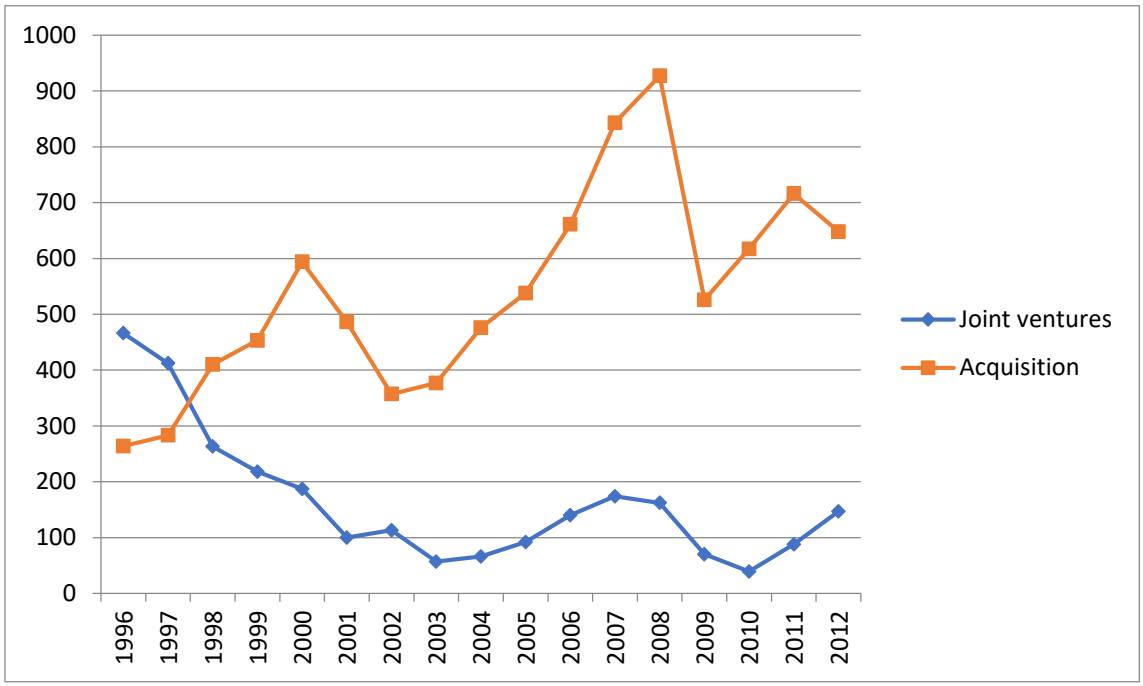

Table 3. Variables: Measures and sources

Variables	Measures	Data source
Dependent variables		
Joint ownership	Dummy: 1 JVs and partial acquisitions; 0 total acquisitions	SDC
Complex partnerships	Dummy: 1 multiparty JVs and partial acquisitions; 0 dyadic JVs	SDC
Independent variable		
Emerging multinational	Dummy: 1 The expanding firm from BRIC or N11 countries; 0 otherwise	SDC
Control variables		
Policy stability	Policy stability index developed by Henisz (2000)	Henisz (2000)
Cultural distance	Kogut and Singh's (1988) index employing updated measurements of Hofstede (2001)	Hofstede (2001)
Institutional distance	Distance between the home country and the host country across the six institutional dimensions of Kauffmann et al. (2010)	World Bank's Governance Indicators
GDP	GDP of the host country	OECD World Investment Indicators
GDP growth	GDP growth at year 2000 constant prices of host country divided by the maximum value of GDP	OECD World Investment Indicators
Inward FDI	FDI net inflows of the host country measured as a percentage of GDP	World Bank Development Indicators
Imports plus exports	Imports plus exports in the host country	World Bank Development Indicators
State	Dummy: 1 State ownership in the investor firm; 0 Otherwise	SDC
Listed target firm	Acquired company or, at least one partner from the alliance in addition to the one studied, was listed on the Stock Exchange	SDC
Size	Total assets of investor firm divided by the maximum value of total assets	Capital IQ
Total debt	Total debt of investor firm divided by the maximum value of total debt	Capital IQ

Relatedness	Dummy: 1 Bidder and target firms or partner firms come from the same SIC2 industry; 0 otherwise	SDC
Manufacturing	Dummy: 1 Investor firm belongs to manufacturing industry; 0 otherwise	SDC
Infrastructure	Dummy: 1 Investor firm belongs to construction, transportation, communication, electric, gas, and sanitary service industries; 0 otherwise	SDC

Table 4 Means, standard deviations, variance inflation factors and correlations among the variables

Variable	Mean	Std. Dev.	VIF	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1) EMERGING MULTINATIONAL	0.08	0.27	2.24	1.00														
(2) POLICY STABILITY	0.46	0.33	9.06	-0.13	1.00													
(3) CULTURAL DISTANCE	2.58	1.23	2.56	-0.33	-0.33	1.00												
(4) INSTITUTIONAL DISTANCE	4.06	1.16	4.86	-0.48	-0.32	0.56	1.00											
(5) GDP	0.23	0.19	7.81	0.03	-0.52	0.16	0.16	1.00										
(6) GDP GROWTH	5.95	4.20	3.00	0.05	-0.44	0.12	0.15	0.52	1.00									
(7) INWARD FDI	2.84	1.57	2.94	0.03	-0.34	0.10	0.13	0.40	0.26	1.00								
(8) IMPORTS PLUS EXPORTS	48.18	20.47	9.37	0.07	-0.29	0.30	0.08	-0.04	0.13	0.16	1.00							
(9) STATE	0.09	0.29	1.10	0.00	-0.01	0.01	0.03	-0.04	-0.01	-0.01	0.04	1.00						
(10) LISTED TARGET FIRM	0.69	0.46	1.10	0.09	-0.01	-0.08	-0.08	0.06	0.05	0.03	0.01	0.21	1.00					
(11) RELATEDNESS	0.57	0.50	1.04	0.03	-0.00	-0.03	-0.00	-0.02	-0.02	-0.02	0.01	0.035	0.04	1.00				
(12) SIZE	0.03	0.09	4.23	-0.06	0.05	-0.01	0.04	-0.03	-0.00	0.05	0.09	0.11	0.10	-0.08	1.00			
(13) TOTAL DEBT	0.01	0.06	4.07	-0.06	0.04	0.01	0.02	-0.03	0.01	0.05	0.09	0.12	0.07	-0.07	0.87	1.00		
(14) MANUFACTURING	0.51	0.45	1.29	0.03	-0.08	-0.02	-0.02	0.08	0.05	0.02	-0.03	-0.11	0.04	0.07	-0.23	0.19	1.00	
(15) INFRASTRUCTURE	0.10	0.30	1.20	0.04	0.05	-0.07	-0.05	-0.04	-0.07	0.02	-0.04	0.10	0.03	0.03	-0.07	-0.05	-0.34	1.00

Table 5 Heckprobit regressions results

Variables	**Joint ownership** (First stage)	**Complex partnerships** (Second stage)
Intercept	1.244**	0.2533
	(0.537)	(0.605)
Independent variable		
Emerging Multinational	0.251 **	0.305**
	(0.113)	(0.150)
Country level control variables		
Policy stability	0.015	0.174
	(0.206)	(0.234)
Cultural distance	-0.084 ***	0.026
	(0.026)	(0.035)
Institutional distance	0.053	0.134**
	(0.039)	(0.052)
GDP	-1.087***	0.430
	(0.331)	(0.415)
GDP growth	-0,007	0.006
	(0.009)	(0.010)
inward FDI	0.012	0.016
	(0.024)	(0.032)
Imports plus exports	-0.003	0.005
	(0.003)	(0.004)
Firm level control variables		
State	0.059	-0.092
	(0,079)	(0.090)
Listed target firm	0.007	0.066
	(0.048)	(0.057)
Size	1.768**	
	(0.702)	
Total debt	-1.378	
	(1.057)	
Industry level control variables		
Relatedness	-0.031	0.112**
	(0.043)	(0.052)
Manufacturing	-0.073	-0.220***
	(0.048)	(0.064)
Infrastructure	0.299***	-0.096
	(0.082)	(0.097)
Home country dummies	Included	
Year dummies	Included	
Log pseudolikelihood	-394.631	
Wald chi2	441.35***	
Number of observations	4,165	2,778

Robust statistics in parentheses

* significant at p<0.1; ** significant at p<0.05; ***significant at p<0.01