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Dominate or Ally? Bargaining Power and Control in Cross-Border Acquisitions by Indian Firms

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Cross-border acquisitions by firms from emerging economies have risen sharply in the present millennium and have targeted both developed and developing markets. Yet, it is not clear what structures and approaches are adopted by these acquiring firms in order to govern their foreign subsidiaries. In this paper, I propose that the firms from the emerging economies operate with weaker positions of bargaining power in international markets owing to their greater liabilities of origin, newness and foreignness. Hence, in order to accomplish their strategic objectives, the firms from the emerging economies adopt nonconventional approaches in the governance of their foreign subsidiaries. These firms are more likely to opt for a wholly owned subsidiary when the intent is to seek new markets and share ownership when the intent is to acquire strategic-assets. However, superior performance of the acquiring firm in its home market can enhance its bargaining power and moderate ownership decisions. My predictions find support in a sample of 979 cross-border acquisitions by Indian firms, over the period 2000–2010.

Introduction

According to UNCTAD (2011), Indian firms have been the most active and aggressive in terms of foreign direct investments (FDIs) amongst all of the emerging economies. India recorded the highest number of cross-border acquisitions (CBAs) in the first decade of the century and, in value terms, this particular mode accounted for a majority of its outward FDI (see Figure 1). This is most unusual for any country in its early phase of internationalization since, amongst the various modes of entry into foreign markets, CBA is the most complex and challenging with the lowest rate of success (Shimizu et al., 2004). While some studies have examined the reasons for Indian firms to undertake CBAs and their economic consequences to the firm (e.g., Gubbi et al., 2010), the issue of "what factors determine governance of acquired foreign subsidiaries by Indian firms" has received little or no attention. This issue is important not only from an international business perspective; it is also highly relevant to corporate governance literature.

Governance of foreign affiliates[1] has been a much discussed and debated stream of research in FDI literature (Brouthers and Hennart, 2007). While governance issues, in particular, have been a subject matter of intense scrutiny in international alliances — including both contract and equity-based — (e.g., Blodgett, 1991; Brouthers and Hennart, 2007; Lecraw, 1984; Mjoen and Tallman, 1997; Yan and Gray, 1994), related research in the context of CBAs is limited at best (Chari and Chang, 2009; Shimizu et al., 2004). While some scholars have claimed that shared ownership is preferred to sole ownership when the information asymmetry between the target and the acquirer is high (Chen and Hennart, 2004), others suggest that differences in national and organizational cultures (Malhotra et al., 2011), regulatory restrictions on foreign ownership (Jakobsen and Meyer, 2007), and the likelihood of exogenous shifts in the external environment (Folta, 1998) may favor one form of governance over the other. These proclamations have overlooked the asymmetry in bargaining power between the acquiring firm and the target and the consequent control mechanisms and structures in the post-acquisition phase. In particular, one can draw parallels between partial CBAs and international joint-ventures (IJVs) where the issue of asymmetry in bargaining power is critical for stability and performance. Similarly in CBAs, between the acquirer and target firm, the firm with greater bargaining power can control operations even if the strategic control vests with the other firm (Mjoen and Tallman, 1997; Yan and Gray, 1994) irrespective of whether the acquired firms is a wholly owned subsidiary (WOS), a

[1] As per the definition of UNCTAD, foreign affiliate is "an incorporated or unincorporated enterprise in which a foreign investor has an effective voice in management. Such an enterprise may be a subsidiary, associate or branch."

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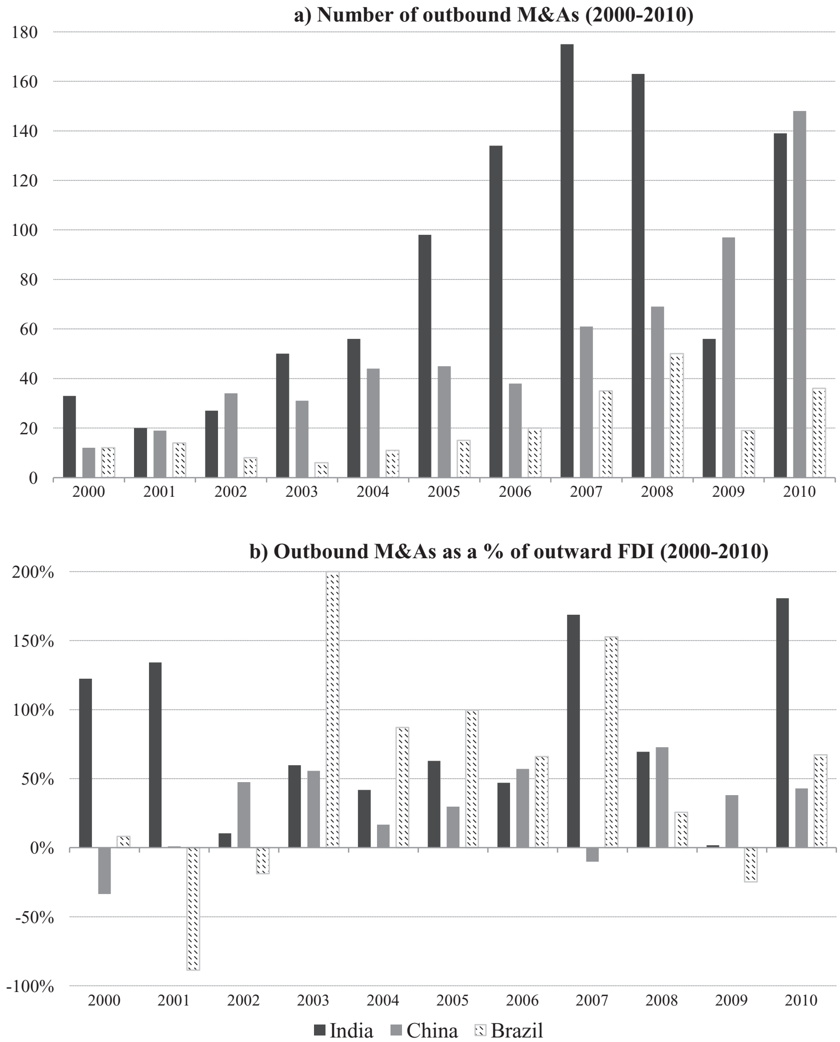

Figure 1. Source: UNCTAD, 2011.

subsidiary or even an associate[2] of the foreign parent. In other words, the equity ownership position does not necessarily have to correlate with strategic or operational control of the acquired assets abroad (Lecraw, 1984). Therefore, the issue of when the foreign subsidiary is controlled by the acquirer and when it is allowed to function autonomously (Kale et al., 2009) remains open for debate.

The asymmetries in bargaining power between the foreign acquirer and the local target firm is more pronounced in the context of CBAs by the multinational firms from the emerging economies (EMNCs). By definition, emerging economies are low-income, high-growth countries using economic liberalization as the primary engine for growth (Hoskisson et al., 2000). EMNCs from these countries carry weak or negative image perceptions abroad (Bilkey and Nes, 1982; Cuervo-Cazurra and Genc, 2008; Ramachandran and Pant, 2010), are latecomers in the international arena, and operate with weak ownership advantages (Cuervo-Cazurra and Genc, 2008; Khanna and Palepu, 1997; Luo and Tung, 2007; Newburry, 2013). As a consequence, EMNCs face greater hurdles and challenges not only at the time of entry but also in the post entry governance of the foreign subsidiary (Cui and Jiang, 2012). Therefore, the issue of foreign subsidiary governance is vital to performance.

In this paper, I isolate factors which shape the governance of the acquired foreign subsidiaries in the context of CBAs by EMNCs. My theoretical framework draws upon resource dependence, bargaining power, and control arguments (Casciaro and Piskorski, 2005; Chen et al., 2009; Emerson, 1962; Pfeffer and Salancik, 1978; Yan and Gray, 1994) to propose that EMNCs

[2] Depending on certain equity cut-off levels an affiliate of a foreign parent is classified as WOS (parent firm owns in excess of 95 percent equity) (Brouthers and Hennart, 2007; Chen, 2008), a subsidiary (foreign parent owns equity in excess of 50 percent) and an associate (foreign parent owns between 10 to 50 percent) (Source: UNCTAD).

use CBAs to overcome some of their barriers to entry in international markets as compared to IJVs and non-equity modes of entry. I further propose that, in order to achieve their objectives for internationalization and depending on the initial bargaining position and the mutual resource dependence, EMNCs select the optimum foreign subsidiary ownership structure. EMNCs are more likely to exercise authority via equity ownership — i.e., create WOS when the power imbalance and the mutual dependence between the acquirer and the target firm is moderate to low. This is more likely when the underlying motivation for CBA is to seek new markets. In contrast, when the underlying intent for CBA is to acquire strategic-assets, the power imbalance favors the target and the EMNC is more likely to share ownership. However, the governance approach is likely to reverse when the EMNCs are already performing well in their high growth home market. In other words, high performing EMNCs are more likely to share ownership of the target firm when the intent is to seek new markets and go with WOS when the intent is to acquire strategic-assets. Superior performance in a high growth market makes an EMNC more attractive and valuable for the potential target firm and tempers the power imbalance and mutual dependencies. I find support for my model in a sample of 979 CBAs by Indian firms over the period 2000 to 2010.

The empirical context of India is appropriate for this study for a number of reasons. First, prior to market reforms in the 1990s, the Indian outward FDI was largely market seeking, driven by a recessive, over-taxed and saturated domestic market. The extent of FDI was miniscule and mainly comprised of joint-venture agreements with ethnically related "sleeping" partners in host markets (Morris, 1990). Also, these investments were manufacturing sector specific, largely developing countries-oriented, and often involved minority Indian equity participation (Morris, 1990; Pradhan, 2004). In contrast, in the post-reform phase, the bulk of the outward FDI by Indian firms targeted industrialized countries and equally involved players from both the manufacturing and services sector (Nayyar, 2008). Clearly, there has been a fundamental shift in the outward FDI behavior of Indian firms after market-reform was initiated in India. Therefore, it is important to know why there has been a change in outlook towards overseas investments.

Second, as seen in Figure 1, there has been a sudden spurt in number of CBAs by Indian firms. According to a Federation of Indian Chamber of Commerce and Industry report (Nayyar, 2008), the proportion of WOS created in many of these CBAs was unusually large. For relatively inexperienced firms in the international markets, dominant preference for a high equity position in the target is indeed unusual. Moreover, anecdotal evidence reveals that the global aspirations of Indian firm managers are no longer confined by geographies or scale. For instance, in one of the largest outbound deals by an Indian firm, Tata Steel acquired the Anglo-Dutch company Corus for about US$12 billion, to jump from 56th to 5th largest steel company in the world. Similarly, Bharti Airtel's recent acquisition of African assets of Kuwait-based Zain Telecom has made Bharti Airtel the fifth-largest telecom company in the world. A recent report by the consulting company PricewaterhouseCoopers (2010) suggests that, by 2018, India will become the source for the largest number of multinational firms from any emerging economy. If the prediction turns out to be true, a closer examination of governance related matters in these CBAs has immense value to both research and practice.

Third, the broad distribution of data in the analyzed sample throws up several interesting aspects of CBAs by Indian firms. Cross-border acquisitions by the Indian firms were spread across 99 different industries (4-digit level) and involved targets located in 83 different countries. In terms of ownership, the sample reflected a fair representation of business groups, state and privately owned firms. Overall, the CBAs by the Indian firms reflected a great amount of heterogeneity in terms of industries involved, countries targeted, ownership identities, age, and size of the firms involved.

Theory and hypotheses

A growing body of literature suggests that EMNCs use CBAs to escape competitive pressures and deficiencies of the home market or to quickly acquire competitive capabilities and resources from international markets (Gubbi et al., 2010; Luo and Tung, 2007; Mathews, 2006; Xia et al., 2013). Especially in the immediate aftermath of economic liberalization, the pressures to internationalize have increased due to: 1) the intense global competition in the home markets; 2) decreasing relevance of the firms' existing resource base; and 3) inability of the indigenous firms to procure competitive assets from an underdeveloped resources and product markets — a characteristic feature of the emerging market business environment (Dawar and Frost, 1999; Hoskisson et al., 2000; Khanna and Palepu, 1997). Therefore, the EMNCs use aggressive internationalization as a springboard to achieve multiple objectives (Luo and Tung, 2007).

However, these EMNCs also face several disadvantages when expanding abroad compared to their counterparts from developed countries. Foremost, the EMNCs operate in the international markets with greater liabilities of newness, foreignness, expansion and origins (Bilkey and Nes, 1982; Cuervo-Cazurra and Genc, 2008; Cuervo-Cazurra et al., 2007; Hoskisson et al., 2000; Madhok and Keyhani, 2012; Ramachandran and Pant, 2010; Zaheer, 1995). These liabilities, when combined with the weaker proprietary advantages of EMNCs, restrict their entry mode and the foreign subsidiary governance options. Conventionally, greenfield entries are preferred over other modes when the investing firm possesses country-specific or firm-specific ownership advantages to overcome the costs of entering and doing business in foreign markets (Anand and Delios, 2002; Cuervo-Cazurra and Genc, 2008). While the EMNCs are known to possess certain advantages when the institutional conditions are difficult, they often lack the more fungible ownership advantages of the advanced country multinational firm (Cuervo-Cazurra and Genc, 2008; Guillén and García-Canal, 2009). Besides, greenfield entries add to the local supply and are often accompanied by sharp retaliation from the incumbent players. As latecomers to international arena and desperate to catch-up with their global rivals (Madhok and Keyhani, 2012), EMNCs can neither afford to cope with the competitive retaliations in the host country nor do they have the wherewithal to do so. Therefore, it is not surprising to find total absence of greenfield entry modes in the outward FDI of EMNCs.

Unlike greenfield entry, IJVs may help alleviate some of the barriers to foreign market entry. However, due to the limited international experience of the EMNCs and the lack of competitive attributes that are valued by potential partners, negotiating and managing international alliances (including equity ventures) poses a new set of challenges (Cuervo-Cazurra et al., 2007; Luo and Tung, 2007; Mathews, 2006; Meyer et al., 2009b). In this regard, "…foreign stakeholders may be concerned about the levels of accountability, transparency, and trustworthiness of EMN[C]s, and hence be reluctant to invest in relationship building with them." (Wang et al., 2013, 5) Evidence also suggests that international alliances between firms from developing and developed country markets are often short-lived or terminated prematurely due to goal incongruity, and power imbalances, as well as dissimilar learning needs and capabilities of the partners (Kale and Anand, 2006). Most importantly, when the bargaining position of the foreign investor is weak, the local partner is more likely to assume control of the partnership and may even refuse to share knowledge and expertise with the foreign investor (Blodgett, 1991; Mjoen and Tallman, 1997; Yan and Gray, 1994). Thus, for all of the above reasons, EMNCs are less likely to pursue IJV option.

As other modes of entry become difficult to implement, EMNCs resort to CBAs as the default mode of entry. In one sense, CBAs are preferred due to the economies of time-compression, reduced competitive reactions in host markets, and the direct access to the embedded assets of the target which is highly desirable for the EMNCs (Anand and Delios, 2002; Capron et al., 1998; Gubbi et al., 2010). However, managing the post-acquisition integration process and the governance of the acquired unit can be hugely challenging in CBAs (Shimizu et al., 2004). In this regard, unlike their counterparts from the developed world, EMNC acquirers are likely to face greater governance related hurdles and complications, both during due-diligence phase as well as during the post-acquisition phase.

To start with, many of the factors restricting the entry mode choices of EMNCs are also in play when making governance related decisions. The advanced country multinational firms derive substantial bargaining power owing to their positive country of origin image overseas, product specialization and superior ownership advantages in the form of managerial capabilities, technology and knowhow. Due to their initial advantages in terms of bargaining position, these firms can also pick and choose their target as well as exercise control over the post-acquisition activities with commensurate or even lower ownership positions (Yan and Gray, 1994). In other words, these initial advantages shift the power imbalance in favor the acquiring firm, providing them with greater latitude in terms of governance options. EMNCs, on the other hand, have fewer ownership advantages and are perceived less positively or even negatively in the international markets. This may weaken their initial bargaining position either during negotiations with a potential target or when discussing control of local operations and assets. This becomes evident from the following anecdotal evidences involving two Indian EMNCs. Both Sun Pharmaceuticals and Indian Hotels wanted to convert their initial minority stake into a majority holding in Israel's Taro Pharma and U.S.-listed Orient Express Hotels Ltd., respectively. However, in both instances the local stakeholders and managers of the target firm dragged them into protracted legal and boardroom battles over ownership rights (Business Standard, 2012; Economic Times, 2013a). In both instance, the management of the target was uneasy being taken over by a company from India. Thus, depending on the strategic objectives for the takeover, if the conventional wisdom would suggest WOS being more effective over shared ownership, with the target firm's stakeholders resisting, acquiring EMNC is left with no choice but to share ownership or withdraw the bid.

It is not just with the employees and owners of the target firm that EMNCs face hurdles. Even the existing clients of the acquired unit may view takeovers by firms from the developing economies in a circumspect manner and reduce their current business exposure or restrict the scope for future service. Indeed, many Indian vendors in the software sector found their clients in advanced countries less reluctant to part with their high-end service needs under the belief that Indian software industry caters to low-end and technically less demanding menial work (Ethiraj et al., 2005). When the future business prospects for the target firm are likely to be impacted by change of ownership, EMNCs are left with no choice but to allow the acquired target to function independently and distinctly from the EMNC parent. Since the "…negative images of investing firm…compromises the viability of alternative legitimizing mechanisms and magnifies the negative consequences of nonconforming responses" (Cui and Jiang, 2012, 280), EMNCs are required to tread more cautiously when selecting the governance of the acquired unit and have to adopt the style of governance which best meets their objectives for the FDI.

Driven by the above consideration, I invoke arguments from the bargaining power and resource dependence literature to build my theoretical model (Casciaro and Piskorski, 2005; Emerson, 1962; Lecraw, 1984; Mjoen and Tallman, 1997; Pfeffer and Salancik, 1978; Yan and Gray, 1994). I propose that, in order to achieve the strategic objectives or the motivations for CBA, the EMNCs are required to balance between strategic control via ownership rights and the effective operational control of acquired assets. Whether an EMNC is likely to opt for WOS or share ownership with the target firm's stakeholders is influenced by the imbalance in the initial bargaining position and mutual resource dependence between the acquirer and target firm (Casciaro and Piskorski, 2005; Chen et al., 2009; Mjoen and Tallman, 1997). When the initial bargaining position is high and the dependence on the target's assets is low, a WOS approach is more likely. Conversely, when the initial bargaining position is low and the dependence on the target's assets is high, shared ownership holds advantages. However, these are extreme positions on a spectrum where bargaining position and resource dependence can assume values ranging from low to high and independent of each other. In such cases, the underlying motivations for CBA can play a role to favor one governance form over other.

The bargaining power and resource dependence arguments further suggest that, while rights to ownership facilitate strategic control in terms of the overall direction and decision making at the board level, operational control is more a function of the nature of resource contributed, the relative contribution, and the strategic importance of the bundled assets (Li et al., 2009; Mjoen and Tallman, 1997; Yan and Gray, 1994). In other words, there is a dynamic interplay between the strategic objectives for the CBA and the rights and means to affect strategic and operational control. Together, these considerations shape the governance of the acquired foreign subsidiary by the EMNCs.

Acquisition motives

According to Dunning (1998, 2000), the major motivations for FDI can be broadly categorized as market-, efficiency-, natural resource-, and strategic asset-seeking. Market-seeking FDI by EMNCs is aimed at acquiring distribution channels in the host market to either boost scope for exports from home or to acquire local manufacturing facilities which can be used as an export base to cater to a much broader regional market (Buckley et al., 2007). Natural resource-seeking FDI caters to alleviating supply side constraints such as timely supply of cheap raw materials, and the efficiency-seeking FDI is aimed at deriving relative advantages of assets spread over geographies to improve overall efficiencies (Dunning, 2000).

In the context of CBAs by EMNCs, both efficiency-seeking and natural resource-seeking motivations play a lesser role in governance related matters. Firstly, efficiency-seeking motivations are less likely to drive FDI by EMNCs given the low costs of input factors available in their home country markets (Buckley et al., 2007). Also, better efficiencies are often achieved as a natural consequence of market- or resource-seeking FDI (Dunning, 2000) and, hence, efficiency-seeking motivations may not be the sole objectives in FDI decision making process. Therefore, I exclude efficiency-seeking motivations from the theoretical model. Similarly, governance related issues are likely to play a minor role in natural resource-seeking FDI since these assets can be either contracted or directly negotiated with the host government. In such instances, the extent of ownership is either shaped by national policies or by the demand for natural resource extracted. Besides, when the costs of exploration and discovery are exorbitant, several consumers of these natural resources can also jointly own these assets and share the spoils of production. For example, Oil & Natural Gas Corporation Ltd (ONGC) of India and China National Petroleum Company International (CNPCI) jointly entered into an agreement with Petro-Canada, a Canadian oil Company on December 19, 2005, to acquire Petro-Canada's entire interest in 36 producing fields in Syria. Both parties mutually worked out an agreement to develop these fields and share the outcome. Thus, in natural resource-seeking investments, the choice between WOS and sharing ownership is subject to exogenous conditions. For above reasons, in this study, I focus on the remaining two motivations directly linked to governance of foreign subsidiary; viz. market- and strategic-asset-seeking motivations.

In market-seeking CBAs, the focus is more on the location, i.e., market, and not the firm. Once a location has been identified, it is then a question of identifying a target with desired downstream assets to competitively promote and sell your products. The target firm's local knowledge and assets are valuable to the acquirer only to the extent until the local market needs are clearly understood and the desired scale of reach realized. Thus, it is a matter of time before the acquirer assumes full control of local operations. Also, in market-seeking FDI, the acquired downstream assets are context specific, hence, perceived to be less valuable to the acquirer when compared to more fungible upstream assets (Anand and Delios, 2002). Due to the low to moderate need for resource-augmentation in market-seeking FDI, collaborative modes such as partial acquisitions or joint-ventures are preferable in such cases when compared to high risk, high control modes such as full acquisitions (Meyer et al., 2009a). However, with EMNCs, the case is likely to be different as argued below.

Under market-seeking FDI, past studies have shown that EMNCs can exploit their ownership advantages of experience with difficult home market conditions and their ability to service unique market segments such as those seeking low cost and affordable products. These EMNCs are also known to maintain flexible and efficient production systems and by their ability to skillfully adapt available technologies and innovate (Cuervo-Cazurra and Genc, 2008; Guillén and García-Canal, 2009). When seeking new markets in other emerging and less-developed markets, EMNCs may prefer WOS over shared ownership for a number of reasons. First, EMNCs are familiar with such markets due to their own home market experience, hence are less dependent on local partner's knowledge and experience (Cuervo-Cazurra and Genc, 2008; Guillén and García-Canal, 2009; Meyer et al., 2009b). For instance, Bharti Airtel acquired African assets of Zain, recognizing many similarities in the macro-economic conditions between India and African countries and hoping to capitalize from their experience of Indian operations (Palepu and Bijlani, 2012). Second, due to the weaker regulatory environments in developing countries and the risks associated with private expropriation hazards (Delios and Henisz, 2000), EMNCs know well to avoid joint-ownership of the acquired assets. Moreover, by opting for WOS with greater control over local operations, EMNC acquirers streamline asset dispersion across similar markets and attempt to achieve better operational efficiencies overall. Thus, in similar or less-developed host markets EMNCs are more likely to prefer WOS.

Although EMNCs are better equipped to enhance their market reach in other similar or less-developed markets, there can be opportunities for expansion to the more advanced markets, as seen in the following examples. According to the top management of the Indian company Gitanjali Gems Ltd, Roger Ltd. Inc., a retail jewelry chain in USA, was acquired in order to move up the industry value chain, directly access Roger's large US consumer base, and leverage Rogers' existing retail infrastructure to gain a better control over the entire value chain in the jewelry business (BSE[3] announcement). Similarly,

[3] BSE or the Bombay Stock Exchange is the premier stock exchange in India ranked 1st in terms of listed companies and 5th in terms of transactions in the world.

Cosmo Films Ltd., major exporter of thermal laminates to Europe and the USA, acquired GBC Commercial Print Finishing business from ACCO Brands Corporation of USA in order to gain a strong foothold in major global markets. Besides, the key decision makers in Cosmo Films anticipated servicing an enhanced customer global customer base while leveraging India's low cost manufacturing advantage (BSE announcement). From these examples, it is apparent that in developed market CBAs, EMNCs seek to gain access to niche market segments and service customers across an expanded value chain of activities. Increased market reach and expanded scope for service further lowers the overhead costs and improves efficiency of operations. Moreover, EMNCs are in a better position to leverage the cross-market resource asymmetries between the developing and the developed countries (Madhok and Keyhani, 2012). Pursuit of realizing greater synergies and complementarities demands that the control of bundled assets rests with one management (Capron et al., 1998; Meyer et al., 2009a). Therefore, in market-seeking CBAs in developed markets, WOS may be preferred over shared ownership. Moreover, given the weaker perception of EMNCs in these parts, even if it is desired, the acquirer is less likely to find a local firm willing to share the risks and rewards of joint-ownership of assets. In such a case, the only option left for the acquirer is to assume complete ownership of acquired assets.

Summarizing the above discussion, whether EMNCs acquire in developed markets or in developing markets, market-seeking motivations tend to support creation of wholly owned subsidiaries. Accordingly, I hypothesize:

Hypothesis 1. In market-seeking cross-border acquisitions, EMNCs are more likely to form wholly owned subsidiaries.

While market-seeking CBAs are a function of the location, strategic asset-seeking CBAs shift the focus towards both location and the target firm. A key issue with such strategic-assets is that they are difficult to evaluate, codify, and transfer across the organizational unit; therefore, sole ownership is preferred over joint-ownership (Anand and Delios, 2002; Capron et al., 1998; Chen et al., 2009). That is, in strategic asset-seeking acquisition, conventional reasoning advocates that WOS is preferable to shared ownership with the target firm. However, as argued below, EMNCs may have to make governance compromises in order to achieve the desired objectives.

First, previous studies have shown that economic and institutional advancement of a market is strongly related with the availability of superior resources and capabilities, and the EMNCs enter advanced country markets in search of such knowledge-based assets that are hard to find in the home market (Gubbi et al., 2010; Luo and Tung, 2007). As noted earlier, in advanced country markets, EMNCs tend to face greater liabilities of newness, foreignness, and country-of-origin effects. As a consequence, the target firms find it less desirable to be wholly owned and controlled by such firms.

Second, strategic assets are embedded in a firm, and hence are more difficult to locate and evaluate. Once a target has been identified and evaluated, it makes economic sense for the EMNCs to conclude the deal before the information becomes public and attracts bids from rival companies. Besides, the greater the importance is of the potential target in terms of strategic assets, the greater the potential is for the target to negotiate simultaneously with multiple partners. For instance, in the case of the widely discussed acquisition of the Anglo-Dutch company Corus, Tata Steel of India had to fight an intense bidding war with its Brazilian rival, Companhia Siderurgica Nacional (CSN). Both of the potential acquirers were dominant firms in their respective home markets and were seeking similar capabilities in Corus. Therefore, while the EMNCs are under pressure to close the deal as quickly as possible, target firms can prolong negotiations with multiple bidders to obtain the best deal. When faced with these constraints and lacking the bargaining position to conclude the deal quickly, EMNC acquirers may be willing to cede operational control of the acquired assets to the current owners of the target firm in order to hasten the deal. Thus the chances for a WOS are further diminished.

Third, with strategic asset-seeking CBAs, EMNCs have a greater need for the target's assets and this further increases the power imbalance in favor of the target firm due to greater resource dependence. Exercising control over local operations via ownership fiat in this case can be counterproductive. For instance, the key employees of the target may choose to quit and join competitors rather than subordinate to owners from a developing country. Besides, for the flow of knowledge to occur, which is realized through willful cooperation and collaboration between human resources, process and social control assume greater importance compared to output control (Chen et al., 2009). In other words, conducive facilitation more than ownership fiat becomes key to achieving the desired goals. All of these suggest, in strategic asset-seeking CBAs by EMNCs, sharing ownership with target and underplaying the EMNC involvement in local operations, incentivizing the local employees to economically benefit from joint-development of knowledge and creating grounds for mutual trust over a period of time is a more effective means to achieve the desired objectives. Hence, I predict that:

Hypothesis 2. In strategic assets-seeking cross-border acquisitions, EMNCs are less likely to form wholly owned subsidiaries.

In the model proposed till now I have examined the link between subsidiary governance structure and the underlying motivations for CBAs, i.e. whether it is market or strategic asset-seeking. In the subsequent discussion I examine the role of EMNC firm's home market performance as a key moderator of above relationships.

Home market performance

Superior home market performance of EMNCs lends several advantages in foreign markets. First, these firms are better positioned to bide their time while defending their home turf; Dawar and Frost (1999) term such firms as defenders. Prior evidence suggests that underperforming firms are prone to making acquisitions in haste and also likely to overpay (Kim et al., 2011). Without informed and calibrated due-diligence process, post-acquisition performance is likely to suffer and can be detrimental to the acquirer's future (Shimizu et al., 2004). Therefore, high performing EMNCs can time their entry into foreign markets and make a more informed investment decision. Second, better performing EMNC's abilities to prosper under difficult governance conditions at home enhances their acceptability to potential partners and creates scope for enhanced cross-market synergies and complementarities (Cuervo-Cazurra and Genc, 2008; Gubbi et al., 2010; Kim and Finkelstein, 2009; Madhok and Keyhani, 2012). For instance, while the advance country markets have experienced tepid or almost no market growth in the first decade of this millennium, the emerging markets in contrast have become the engine of global economic growth. For a firm based in developed markets, the lure for tapping into the resources of a high performing EMNC holds high promise. This is best demonstrated by the spectacular turnaround of Jaguar Land Rover (JLR) after it was acquired by Tata Motors in 2008. From a loss making unit at the time of acquisition, JLR accounted for 100 percent of Tata Motors' profit in 2012–13, due to high sales in emerging markets (Economic Times, 2013b). Overall, whether in developed or in developing markets, EMNCs with an impressive performance track record in their home market tend to be perceived more positively by stakeholders compared to their underperforming peers. I propose that, this positive evaluation owing to credible home market performance of the EMNC firm mitigates some of the bargaining disadvantages in international markets and provides greater latitude in terms of governance options available to the acquirer.

In market-seeking CBAs targeting developing markets, EMNCs with superior home market performance are likely to command higher initial bargaining position and have a lower dependence on target firm's assets. since the EMNC acquirer has previous exposure and the capabilities to deal with difficult market conditions (Cuervo-Cazurra and Genc, 2008). Besides, the target firm has more to gain by teaming with a high performer in terms of opportunities, mutual learning, and improved efficiencies across the value chain of the combined entities. Therefore, a developing country target may be more than willing to share ownership with such a firm. The EMNC firm also may not be averse to such a proposition since it is benefitted by lowered financial exposure and joint sharing of risks. Thus, in market-seeking CBAs by EMNC firms with strong home-market performance, acquiring targets in developing countries with shared-ownership creates a win-win situation.

Similarly, for a target located in more advance markets, besides the attractiveness of the home market of the EMNC acquirer, there are other potential benefits. For instance, in the partial acquisition of Geiger Technik (Germany) by Sintex industries Ltd., the top managers of Sintex expect to gain a strategic market entrance in Germany which is the capital of the European automotive market. On the other hand, the investment by Sintex will help Geiger to thrive as an innovation leader in the automotive components market and identify additional fields of business. Moreover, the growing Indian economy and the emerging global footprint of Sintex can be leveraged for propelling Geiger on an accelerated growth plan (BSE announcement). The above example suggests greater goal congruity between the acquirer and the acquired firm and a lowered threat for opportunistic behavior enhances the scope for partnership-based governance models (Mjoen and Tallman, 1997; Yan and Gray, 1994).

Second, superior performance signals financial soundness of the acquirer and help assuage any doubts related to future of the enterprise. A target firm looking for capital investment infusion to consolidate and/or expand further in its own market would favor association with an EMNC acquirer with a strong balance sheet. Besides as mentioned before, targets located in more advance economies view partnership with an EMNC acquirer with strong home-market performance as a potential growth opportunity considering their relatively tepid home-market prospects. In line with the above reasoning, I propose that an acquiring firm's performance record moderates the effect of cross-border acquisition motive on the level of ownership decision such that:

Hypothesis 3. In market-seeking cross-border acquisitions, EMNCS with superior home market performance are more likely to share ownership with the target and less likely to form wholly owned subsidiaries.

In strategic-asset seeking CBAs, we had earlier proposed that EMNC acquirer is more likely to share ownership. However, this too may change with EMNCs having superior home market performance.

First, the scope for benefitting from the complementarities in both resource-and product-markets — arising due to asymmetries in the institutional contexts of merging entities — is likely to increase. While EMNCs have their strength in coping with a high growth but dynamic environment relying more on efficiency, flexibility, and relational contracts with key stakeholders, the advanced market targets know how to operate in a highly competitive business environment, relying more on differentiated products, marketing and managerial capabilities to forge relationships with suppliers and customers (Dawar and Frost, 1999; Guillén and García-Canal, 2009). Therefore, the coming together of entities with a host of complementary benefits on the resource- and product-markets augurs well for the merged enterprise. When both the acquiring and target firm foresee mutual advantages to work together, the mutual dependence on each other's assets increase. When the mutual dependence between firms is high, acquisitions "…eliminate the need to renegotiate the terms of the exchange repeatedly and the uncertainty about resource procurement." (Casciaro and Piskorski, 2005, 174) This is best illustrated by India's leading engineering company, Thermax Ltd.'s, motivation for acquisition of Denmark based Danstoker A/S, a leading European boiler manufacturer. While the top management of Thermax expects Danstoker's state-of-the-art technology and process know-how in renewable energy to enhance its heating business division's product portfolio and extend it to new untapped markets, correspondingly, capitalizing on Thermax's engineering and project management capabilities, Danstoker's managers expect to increase market share in the growing European green energy market (BSE announcement). Due to increased mutual dependence between the acquirer and the target firm, there is lower scope for goal incongruity and hence less scope for friction working together. Therefore, the chances of post-acquisition difficulties are likely to be lower.

Second, due to the tacit and intangible nature of competitive advantage yielding strategic assets, the utility of such assets is best realized by sole rather than joint ownership of assets (Amit and Schoemaker, 1993; Anand and Delios, 2002; Capron et al., 1998). Greater keenness of the potential target to work together and knowing its worth in terms of future potential, it makes better sense for EMNC to reap benefits of post-acquisition upside returns than to share with the target. Moreover, compared to underperforming EMNCs who face time pressures while selecting a target, EMNCs with a superior performance track record are in a position to carry out a calibrated and well thought out due-diligence. Hence, such firms are in a better position to take greater risks and may opt for the WOS route. Therefore, I conclude:

Hypothesis 4. In strategic asset-seeking cross-border acquisitions, EMNCS with superior home market performance are less likely to share ownership with the target and more likely to form wholly owned subsidiaries.

Method

As per the figures available from UNCTAD, in the period 1992-1998, there were just 80 CBAs by Indian firms. Also, the information available on CBAs prior to 2000 was scarce. Therefore, January 1, 2000, was adopted as the starting point of the period for this study. I scrutinized all "completed" CBAs by publicly traded and incorporated firms in India (excepting subsidiaries of foreign parents) over the period starting January 2000 and ending on December 2010. The database of all CBAs by the Indian firms was constructed by simultaneously referring to the Thomson Financial database, the ORBIS (Zephyr) database and all announcements made on the BSE. Each observation in the sample was cross-validated with at least two independent sources. In some of the cases, I referred to the company annual reports and media reports. Overall, I identified 979 instances of CBAs (including repeat acquisitions by the same firm) by publicly listed Indian firms across all sectors of the economy. Out of total 979 CBAs, 514 were made by 190 Indian manufacturing sector firms and the rest of the 465 CBAs were made by 167 firms mostly belonging to the services sector. The firms included standalone firms, affiliates of business groups as well as the state-owned enterprises. A detailed break-up of the sample is provided under Table 1.

Next, I collected firm- and industry-level data for the acquiring firms in the sample. The Prowess database maintained by the Center for Monitoring of Indian Economy (CMIE) contains firm-specific data on over 25,000 firms including large and medium, private and public firms. Aggregate macro-level information was obtained from the National Accounts Statistics (United Nations Statistics Division), World Economic Outlook (International Monetary Fund), and the database maintained by Organization for Economic Co-Operation and Development (OECD).

Table 1
Sample data distribution[a]

Industry	Number of events	Target country	Number of events
Computer software	253	United States of America	323
Drugs & pharmaceuticals	116	United Kingdom	124
Automobile ancillaries	34	Australia	46
Other chemicals	27	Germany	44
Steel	25	Singapore	38
Trading	24	South Africa	26
Plastic packaging goods	19	Canada	25
Organic chemicals	17	United Arab Emirates	22
Telecommunication services	17	France	20
Infrastructural construction	14	Italy	18
Pesticides	14	Malaysia	18
Plastic furniture, floorings	14	China	17
Others	405	Others	258
Total	**979**	**Total**	**979**
By acquired firm ownership		By acquiring firm ownership type	
40–50	35	Business group	592
50–60	167	State-owned	27
60–70	26	Standalone	360
70–80	43		
80–95	40	**Total**	**979**
≥95	486		
		Target Market Status[b]	
Undisclosed or <40	182	Developed	700
		Developing	279
Total	**979**	**Total**	**979**

[a] Includes all completed acquisitions by publicly traded Indian acquirer firms.
[b] Categorization based on OECD (developed) and non-OECD (developing) countries.

Dependent variable

My theoretical model makes predictions on the governance choice of the EMNCs in CBAs, i.e., whether and when the EMNCs prefer a *wholly owned subsidiary* (WOS) with full ownership rights over shared ownership in CBAs. Accordingly, the measure is a dichotomous dummy taking a value of '1' if the CBA results in the target become a WOS and '0' otherwise. Consistent with past research (e.g., Brouthers and Hennart, 2007; Chen, 2008; Cui and Jiang, 2012), I classified a target as a WOS if the equity acquired was in excess of 95 percent.[4]

Independent variables

The first set of hypothesized constructs relate to the underlying strategic objective or the motives for CBAs. In order to develop the measures, I systematically analyzed the detailed information released to the external world by the principal actors soon after the acquisition was announced. Such information is disseminated via corporate announcements on stock exchanges where the firm is listed, media releases and interviews by the top management of the focal company, and in the company annual reports. A widely used technique to glean vital information contained in textual material is by content analysis. According to Morris (1994, 903), "[c]ontent analysis is a research technique used to objectively and systematically make inferences about the intentions, attitudes, and values of individuals by identifying specified characteristics in textual messages." I coded the textual content analyzed for the presence or absence of a particular motivation as stated by the top management in the media release. My first source for this information was the direct announcement made on the BSE by the focal firm. In most of the cases, the rationale for a particular acquisition was available either on the day the acquisition was formally announced or in the subsequent days following the announcement of the acquisition. In some cases where no rationale was provided, I searched for other media reports immediately following the acquisition announcement and/or company annual reports where the acquisition was highlighted. The textual information thus collated was manually analyzed and coded by the author and by a master-level student with a good understanding of mergers and acquisition. The coding procedure was as follows.

First, we scanned the text for typical intent revealing phrases such as 'we expect', 'this acquisition will', 'we believe', 'is being acquired mainly to', and 'this acquisition is aimed at', and so on. Next, we looked specifically for phrases signaling anything that was related to market expansion. The corresponding variable, *market-seeking*, was assigned a value of '1' if the analyzed text explicitly mentioned terms such as 'new', 'additional', 'enhance', 'improve', 'expand' in terms of overall market size; otherwise, the variable was assigned a value of '0'.

Similarly, we coded another variable *strategic asset-seeking* to denote the intent of acquiring or augmenting competitive resources and capabilities. In line with previous research, such assets are technological and domain know-how, managerial expertise, product development and brand management capabilities, R&D capability, superior client and supplier relationship, image and reputation of products, and services, among others (Amit and Schoemaker, 1993; Chen et al., 2009). The *strategic asset-seeking* variable was assigned a value of '1' if it was explicitly mentioned in the media release that the acquisition brought in resources and capabilities in the form of 'technology', 'know-how', 'managerial strength', 'client relationship', 'brand', 'domain expertise' and so on; otherwise the variable was assigned the value of '0'. It is pertinent to note that although most announcements contained the word 'strategic', we did not take the word per se into account while coding the variable. Instead, we focused on the specific benefits of the CBA mentioned in the announcement and accordingly decided the category of the motivation.

The other independent variable of interest is the past performance of the acquiring firm. Scholars who have examined firm performance, while concurring that there is no single superior comprehensive measure, have shown a greater affinity for accounting-based performance measures followed by market-based measures. Since firm performance is used as a moderator in this study, I used the most conventionally used measure for performance viz., profit to sales ratio. I measured *firm performance* by taking acquiring firm's average three years net profit margins (net profit to sales ratio) prior to the event.[5] Taking the average over three years minimizes chances of accounting manipulations in a particular year and reduces the impact of unusually large or small values.

Controls

In line with the literature on mergers and acquisitions and FDI, I controlled for a number of known predictors such as firm size, firm age, international market experience, and the extent of resources owned by the firm. Since all the firms in the sample are listed on the stock market, I measured *firm size* by stock market based average market capitalization (logarithm of average market capitalization over 365 days prior to the event). As an alternative, I also used the conventional logarithm of total assets of the firm to measure firm size. *Firm age* was measured by taking the difference between the year

[4] As suggested by Chen and Hennart (2004), all results were reconfirmed using alternate cutoff values. As reported later under the additional analysis section, I also carried out a Tobit analysis with a subsample where actual values of equity acquired in the target firm are known.

[5] Under robustness and sensitivity analysis section, we show that replacing this variable with other alternate measures did not alter the overall pattern of the reported results.

of the acquisition and the year of incorporation of the firm. Firm's experience in the international markets was controlled using *export intensity,* measured as the ratio of total export sales to net sales averaged over three years prior to the acquisition. To account for the available firm resources, and following Capron et al. (1998), I used several measures. I controlled for the technological capabilities or technical know-how with the widely used variable *firm RD Intensity* measured as the ratio of R&D investments to total sales. In addition, I controlled for sources of capital to fund CBAs viz., internal accruals, and external capacity to raise debt. Internal capital was measured using the conventional current ratio or the ratio of current assets to liabilities (*firm financial resource*). The variable *firm leverage* reflects external capacity to raise capital measured in terms of debt to equity ratio. In each case for the resource measures, I used the average of the current and the previous two year values to reduce the influence of extreme values.

Other than the typical controls, I introduced several additional controls into the model that were likely to influence the choice between WOS and shared ownership. It is likely that prior exposure to acquisition promotes a certain type of acquisitive behavior (Kim et al., 2011). Therefore, I used the variable *previous acquisition experience* to account for previous counts of acquisitions made. In the Indian context, three types of ownership affiliation have been found to influence business activities and outcomes, namely, business group (BG) membership, state ownership, and foreign parent ownership. As the focus of this enquiry is on indigenous firms, I excluded all cross-border acquisitions by the subsidiaries of foreign parents. Business group affiliation and state ownership was operationalized by the binary variables *BG affiliate* and *State-owned;* each taking a value of '1' when the firm belongs to the respective category and '0' otherwise. Similarly, Capron and Shen (2007) find that the type of the target firm (i.e., private versus public status) can influence the acquisition outcomes. Accordingly, I introduced a binary variable *private target* coded '1' if the acquired firm status was private and '0' otherwise. Since my sample contained firms belonging to all sectors of the economic activity, it is possible that the service-sector EMNCs such as those belonging to the information technology sector behave differently from those in the manufacturing sector. In order to account for this difference, I included the *manufacturing sector* variable as a dichotomous dummy coded '1' if the acquired firm was from the manufacturing sector and '0' otherwise. Moreover, the governance preferences of the EMNC belonging to the knowledge intensive sector may be different from the rest. Accordingly, I used the industry categorization provided by the Organization of Economic-Cooperation and Development (OECD) to separate such firms from the rest. The corresponding variable *knowledge intensive industry* was coded '1' if the firm belonged to this category and '0' otherwise. From the real options perspective, there is merit in delaying or staggering the commitment of resources when the external market conditions are unclear or evolving. In other words, an EMNC may initially go for shared ownership and later convert to WOS by acquiring additional equity. I controlled for this with the variable *sequential acquisition* coded '1' if equity in the target was acquired in stages and '0' otherwise.

Finally, I controlled for a number of macro-economic variables such as the fluctuations in currency value and the differences between home and host market conditions. The variable *currency conversion,* measured as the logarithm of host economy currency in current US dollar terms, accounts for variation in currencies. The variable *economic distance* was measured as the difference in the logarithmic value of per capita gross domestic product on purchasing power parity basis. The corresponding data for each country was obtained from the World Bank database for the year in which acquisition was made. It is possible that the EMNC selects the type of CBA based on the level of development of the host country. I account for this with the variable *developed country target* wherein I identified the host country belonging to the OECD. Finally, to control for cultural differences between the home and host markets, the variable *cultural distance* was operationalized following the widely used Kogut and Singh (1988) transformation of Hofstede (1980) dimensions for culture. As our dependent variable was a binary measure, I used a probit model with robust standard errors estimates to test the model.

Results

Table 1 provides a summary of the distribution of the CBAs in the sample. Clearly, the nature of the distribution of data suggests that the bulk of the acquisitions are aimed at acquiring know how from the advanced country targets. Overall, the sample analyzed appears to be fairly well distributed across sectors, industries, and geographies as well as in terms of ownership.

Descriptive statistics and correlations of the key variables in the model are reported in Table 2. The highest observed correlation is between the control variables of *developed country target* and *cultural distance* (.76). All other correlations are generally on the lower side and unlikely to be of concern regarding multicollinearity issues.

Results of the probit regression with the dichotomous dependent variable *wholly owned subsidiary* (WOS) are displayed under Table 3. The model 1 comprises only the control variables. Under fully specified model 2, I included all the hypothesized variables. In the first hypothesis, I had proposed that EMNCs are more likely to form WOS in market-seeking CBAs. The corresponding coefficient for the *market-seeking* variable turned out to be positive and significant ($p < .01$), lending support to the hypothesis. In Hypothesis 2, I had predicted that the EMNCs are more likely to share ownership with the target when the intent is to acquire *strategic-assets* in CBAs. The negative and significant ($p < .05$) coefficient of the corresponding variable in the fully specified model 2 provided support for the hypothesis. Under Hypotheses 3 and 4, I expected prior performance of EMNC to moderate the relationship predicted under Hypotheses 1 and 2. That is, the superior performance suppresses the need for WOS in CBAs aimed at market expansion and enhances the likelihood for WOS in strategic asset-seeking CBAs. Accordingly, the coefficients of the corresponding interaction terms are in line with the predicted direction with sufficient statistical significance. Overall, the prima facie evidence provided empirical support to my theoretical model. In order to reconfirm, I carried out a series of alternate checks and tests as outlined in the next section.

Table 2
Descriptive statistics and correlations

	Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1	Wholly owned subsidiary	1																				
2	Firm age	–0.03	1																			
3	Firm size [a]	–0.02	0.31	1																		
4	Firm RD intensity [c]	0.17	–0.21	0.01	1																	
5	Economic distance [b]	0.09	–0.12	–0.24	0.00	1																
6	Cultural distance	0.12	0.00	–0.04	0.10	0.34	1															
7	Currency conversion	–0.12	0.10	0.18	0.00	–0.62	–0.40	1														
8	Manufacturing sector	0.02	0.23	0.08	0.01	–0.14	0.02	0.04	1													
9	State-owned	–0.13	0.01	0.27	–0.11	–0.30	–0.17	0.23	–0.15	1												
10	BG affiliate	0.10	0.33	0.41	–0.04	–0.08	0.02	0.05	0.30	–0.21	1											
11	Private target	0.06	–0.18	–0.21	–0.06	0.22	0.08	–0.13	–0.10	–0.04	–0.13	1										
12	Sequential acquisition	–0.12	–0.02	–0.06	–0.03	0.02	0.06	–0.05	–0.04	–0.03	–0.08	–0.10	1									
13	Firm financial resource [c]	0.01	–0.14	–0.23	0.21	0.14	–0.01	–0.06	–0.19	–0.05	–0.20	0.07	0.01	1								
14	Firm leverage [c]	–0.07	0.01	–0.14	–0.09	–0.04	0.05	0.03	0.25	–0.07	0.08	–0.05	–0.05	–0.07	1							
15	Export intensity [c]	0.04	–0.25	–0.10	0.34	0.11	0.03	–0.05	–0.31	–0.14	–0.23	0.01	0.08	0.26	–0.08	1						
16	Previous acquisition experience	0.07	0.17	0.46	0.25	–0.07	0.03	0.02	0.02	0.14	0.17	–0.08	–0.06	–0.10	–0.15	0.08	1					
17	Developed country target	0.13	–0.05	–0.15	0.09	0.56	0.76	–0.59	–0.01	–0.25	–0.02	0.16	0.07	0.05	0.03	0.08	–0.03	1				
18	Knowledge intensive industry	0.12	–0.16	–0.09	0.41	0.16	0.14	–0.18	–0.13	–0.17	–0.05	0.12	–0.01	0.09	–0.14	0.20	0.13	0.22	1			
19	Firm performance [c]	–0.07	–0.05	0.11	0.12	–0.05	0.01	0.04	–0.16	0.08	–0.09	–0.03	0.02	0.04	0.00	0.16	0.10	–0.02	0.06	1		
20	Market-seeking	0.06	0.00	0.06	0.15	0.07	0.05	–0.03	0.08	–0.13	0.07	0.10	–0.06	0.01	0.03	0.04	0.08	0.10	0.12	0.04	1	
21	Strategic asset-seeking	0.14	0.01	0.12	0.15	0.13	0.15	–0.18	0.00	–0.15	0.06	0.06	–0.03	–0.01	–0.05	0.08	0.08	0.25	0.15	0.04	0.32	1
	Observations	878	979	974	398	900	850	907	979	979	979	490	979	979	979	927	979	979	979	979	979	979
	Mean	0.55	26.98	99.25	0.02	0.40	1.60	181	0.53	0.03	0.60	0.72	0.02	2.38	0.76	0.39	5.08	0.72	0.67	0.24	0.53	0.45
	Std. Dev.	0.50	21.39	307.78	0.03	0.19	0.58	1320	0.50	0.16	0.49	0.45	0.15	4.86	0.86	0.41	3.80	0.45	0.47	0.53	0.50	0.50
	Min	0	0	0.44	0.00	–0.03	0	0.38	0	0	0	0	0	0.22	0	0.00	1	0	0	–10.42	0	0
	Max	1	143	3373.76	0.12	0.98	3.86	16449	1	1	1	1	1	72.51	8.26	7.66	15	1	1	0.96	1	1

Values greater than .08 are significant at 5%.
[a] Mean annual market capitalization (values in billions of INR).
[b] Gross Domestic Produce difference on Purchasing Power Parity basis.
[c] Three year average values.

Table 3
Results of Probit regression (DV: wholly owned subsidiary)

	Full sample models		Subsample models		
			OECD target	Knowledge sector	Manufacturing sector
	1	2	3	4	5
Market-seeking (X1)		2.959**	2.181*	2.245*	2.771**
		(0.97)	(1.15)	(1.10)	(1.16)
Strategic asset-seeking (X2)		−1.845*	−2.535*	−1.995*	−2.58**
		(0.90)	(1.33)	(1.00)	(1.08)
X1 * Z1		−13.408**	−10.422**	−10.172**	−11.482*
		(4.12)	(4.41)	(4.49)	(5.18)
X2 * Z1		6.284*	8.565*	6.145*	10.568**
		(3.40)	(4.85)	(3.65)	(4.38)
Controls					
Firm performance (Z1)		1.359	−2.682	−1.151	−4.813
		(4.61)	(6.19)	(5.61)	(5.28)
Firm age	0.003	−0.002	0.007	−0.005	−0.004
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Firm size	−0.069	−0.045	−0.09	0.158	−0.066
	(0.12)	(0.13)	(0.17)	(0.16)	(0.17)
Firm RD intensity	14.908**	19.879**	17.354*	19.406**	13.008*
	(5.24)	(6.23)	(8.22)	(6.01)	(6.54)
Economic distance	−0.913	−0.68	−0.759	0.733	−1.546
	(1.01)	(1.08)	(1.94)	(1.25)	(1.29)
Cultural distance	0.184	−0.034	0.032	0.042	0.109
	(0.30)	(0.34)	(0.40)	(0.37)	(0.35)
Currency conversion	−0.139	−0.102	−0.073	−0.077	−0.169
	(0.12)	(0.14)	(0.16)	(0.14)	(0.14)
Manufacturing sector	−1.5*	−1.89**	−1.341*	−1.796*	
	(0.65)	(0.65)	(0.65)	(0.77)	
BG affiliate	−0.272	−0.819***	−0.789	−0.848	−0.837***
	(0.42)	(0.48)	(0.55)	(0.52)	(0.49)
Private target	0.395	0.468	0.525	0.537	0.379
	(0.28)	(0.34)	(0.40)	(0.38)	(0.34)
Sequential acquisition	−0.168	0.095	−0.529	0.038	0.11
	(0.83)	(0.84)	(0.86)	(0.86)	(0.89)
Firm financial resource	−0.143***	−0.088	−0.077	−0.103	0.313
	(0.08)	(0.09)	(0.11)	(0.10)	(0.22)
Firm leverage	−0.253	−0.471*	−0.538*	−0.36	−0.536*
	(0.21)	(0.22)	(0.24)	(0.25)	(0.22)
Export intensity	−0.779	−0.837	−0.783	−0.806	−0.686
	(0.69)	(0.71)	(0.85)	(0.87)	(0.70)
Previous acquisition experience	0.02	0.06	0.013	0.005	0.086
	(0.05)	(0.06)	(0.06)	(0.07)	(0.06)
Developed country target	0.224	0.63		0.38	0.708
	(0.50)	(0.52)		(0.54)	(0.59)
Knowledge intensive industry	0.066	−0.458	−0.343		−0.627
	(0.35)	(0.43)	(0.49)		(0.47)
Constant	2.662***	3.472*	5.031*	1.363	2.559
	(1.38)	(1.60)	(2.24)	(1.60)	(1.97)
Chi-square	26.82*	34.24*	31.8*	28.28	31.52*
N	129	129	102	102	109

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.1$.
Unstandardized coefficients.
Robust standard errors in parentheses Significance level based on two-tailed t-test.

Additional checks and tests

The results reported in Table 3 are based on a dependent variable that was created using the 95 percent equity ownership cutoff. As an alternate, I created another variable where I used 80 per cent equity ownership in the target as the cutoff to denote WOS. I retested all the models reported in Table 3 with this alternate specification of the dependent variable. I did not observe any major departure from the reported results. Next, following Malhotra et al. (2011), I used the actual value of equity owned in the target as a dependent variable rather than dichotomous dummy for *wholly owned subsidiary*. Although this resulted in the loss of several observations (in many CBAs, the actual equity figure was not disclosed), the resultant sample was large enough to carry out a Tobit analysis. The results from the Tobit analysis were largely similar[6] to those reported in Table 3.

6 Results not reported but available on request.

I retested the original sample using a logit specification instead of the probit for all of the models. I did not observe any noticeable change from the reported results. As reported under Table 3 (models 3, 4 and 5), I split the full sample into several subsamples and re-estimated the model. First, I used a subsample where the targets were acquired only in the OECD countries. Next, I used a subsample of CBAs made by firms belonging to the knowledge intensive sector. Lastly, I retested the theoretical model using a subsample of firms belonging only to the manufacturing sector. In each case, the results obtained were consistent with the theoretical predictions lending further credibility.

In order to check for sensitivity and robustness to alternate specifications of the variables in the model, I replaced some of the variables with their alternate measures. First, I replaced the *firm performance* variable by profit margin normalized by the industry median value. Normalizing by the industry median value differentiates the high performing firms from the under performers within the same industry. The results obtained were remarkably similar to those reported under Table 3. Second, I replace the *firm size* variable with the conventional logarithm of total assets instead of the reported logarithm of the mean of annual market capitalization measure. The change did not impact the reported results. I also retested the models by replacing the three year average values with corresponding one year lag values for the following variables: *firm financial resource, firm leverage,* and *firm RD intensity*. The net impact to the reported results with the above changes was negligible. The consistent nature of the results obtained with the various subsamples, alternate specifications of the dependent and independent variables, and with alternate analytical techniques provided robust empirical support to my theoretical model.

Discussion and conclusion

Central to this paper is the argument that EMNCs operate in international markets from weak bases of bargaining when compared to the firms from the advanced economies. As a consequence, the challenges faced by these firms are different, and they are more likely to pursue approaches which are unique to them. In this paper, I developed a model to predict governance decision making in the context of CBAs by the EMNCs. An analysis of a sample of CBAs by the Indian firms over the period 2000-2010 supported the proposed model.

First and foremost, I find that the Indian firms are more likely to seek WOS when the motivation behind these acquisitions is to seek new markets for growth. Previously, research shows that upstream and downstream capabilities are significant determinants of the choice of entry mode in FDI (Anand and Delios, 2002). Further, Chen (2008) has noted that Japanese firms prefer full CBA when the motive is capability procurement and, for other strategic considerations, prefer partial CBA. Given the inherent strengths of EMNCs — in terms of experience with underdeveloped and rapidly evolving institutional conditions, servicing diverse customer preferences and needs, and flexible and efficient production systems to skillfully adapt and innovate (Guillén and García-Canal, 2009)—it is likely that acquiring downstream assets in the international markets extended some of their upstream ownership advantages to market niches present in both the developing and the developed markets. By entering foreign markets using the WOS route, it appears that the EMNCs perceive a lower utility for the local knowledge of the target firm. This is likely since the EMNCs are known to skillfully adapt to external conditions and innovate as needed; a knowledge they tend to carry from their home-market experience. The other possibility for preferring WOS in market-seeking CBAs is the need to maintain operational control over the acquired local assets, integrating with the upstream capabilities and attempting to maintain an efficient and lean global value chain. This way, the acquiring EMNCs may be able to keep the overall costs of operations low enough to be competitive.

Second, Indian firms seeking strategic assets in the form of technology, know-how, brands, client relationship management, managerial capabilities, and domain expertise, amongst other things, choose to share ownership with the target firm. This finding contrasts with those reported previously (e.g., Anand and Delios, 2002, Chen, 2008) where capability procurement motivations are accompanied by full CBA. Since the competitive assets sought by EMNCs are most likely to be found in the advanced country markets where the country of origin disadvantages are higher and the EMNC acquirer's bargaining position is weak, conceding some ownership rights to the target may be necessary in return for their collaboration to share the knowledge. Besides, strategic-assets take longer to translate into economic benefits and are more complex to assimilate and redeploy. Coming from bases of weak technological and managerial positions, EMNCs may lack the necessary absorptive capacities to immediately benefit from the acquired strategic assets. Hence, they are better off sharing ownership with key personnel of the acquired firm so as to incentivize and encourage their participation.

A key finding of this paper suggests that not all EMNCs adopt a similar acquisition strategy when entering foreign markets. Indian firms with a superior home market track record are less likely to seek WOS when diversifying across geographic markets and more likely to seek WOS when seeking strategic assets. This behavior is similar to those of the Japanese firms investing in the US (Chen, 2008) or the Spanish firms with considerable accumulated competences investing abroad (Duarte and García-Canal, 2004). It seems that the home market performance plays a very important role in the context of the EMNCs who often hail from high growth markets with intense competitive rivalry in the post-reform period (Dawar and Frost, 1999; Hoskisson et al., 2000). Under such conditions, if an EMNC happens to be doing well for itself in its home market and simultaneously attempts to expand to other foreign markets, it derives bargaining advantages compared to the other EMNCs. In particular, with market-seeking FDI, a well performing EMNC can lower its capital commitment and, hence, the downside risks involved. With strategic asset-seeking FDI, an EMNC with superior performance in its home market may even attempt to solely benefit from the future upsides by going for WOS. In other words, superior home market performance permits these firms to exercise greater flexibility and options in their decision making.

In addressing a key issue faced by EMNCs — when to share ownership with local partners abroad in CBAs — this study makes several contributions. Although much has been researched on this issue in the context of international alliances (both equity and non-equity based), this is the first study to examine governance choices in CBAs by the EMNCs. Previous scholarship on IJVs informs us that the firms from advanced economies have more options for entry and find it easier to attract local partners and may even retain operational control of the foreign unit depending on strategic importance without commensurate equity rights (Lecraw, 1984; Yan and Gray, 1994). Besides, these firms make ownership concessions to the local partner only when the host market policy so demands (Lecraw, 1984) or to promote productivity (Li et al., 2009). This paper draws important parallels with IJV literature, especially on the issue of bargaining power and control in the context of CBAs and furthers our understanding of governance in a very important mode of foreign market entry. My findings reveal that EMNCs incur greater costs of doing business abroad due to greater liabilities of origin, newness, and foreignness (Cuervo-Cazurra et al., 2007; Cui and Jiang, 2012; Newburry, 2013). As a consequence, not only do the EMNCs have limited options for foreign market entry; viz. CBA, they attempt to strike a balance between bargaining position and control of acquired assets in order to achieve their strategic objectives for the FDI.

This paper contributes to resource dependence literature by extending the work of Xia et al. (2013) who have proposed that the resource interdependence between local and foreign firms in the home market has a bearing on the outward FDI by Chinese firms. In contrast, my study delves into the issue of resource dependence and bargaining position of the EMNCs in the host market and expounds on how their governance choice is constrained or enabled. In particular, my work highlights the salience of the home market performance of the EMNC as a key instrument for bargaining in CBAs. Related arguments and reported findings suggest that the internationalization behavior of high performing EMNCs is almost similar to those of the firms from the advanced countries, i.e., collaborate with local firms to access the tangible assets and seek WOS via acquisition to access intangible local assets (Meyer et al., 2009a).

I contribute to the entry mode and mergers and acquisition (M&A) literature by examining a relatively under-researched issue of the choice between WOS and shared ownership in CBAs. I advance current knowledge by revealing the dynamic interplay between acquisition motive, home country performance of the acquirer, and the need to balance between bargaining position and the governance of the foreign subsidiary. This paper extends the work of Chen (2008) in the context of Japanese firms' international expansions by comparing with the international expansions of the Indian firms. More importantly, unlike Japanese firms, Indian firms are subjected to bargaining power and resource dependence related constraints and, hence, adopt unique approaches as predicted by the theoretical model.

The paper has implications for managers and policy makers. Managers of EMNCs encounter greater entry hurdles when investing abroad and, the critical decision of 'whether and when to share ownership with the local unit in the host market', is shaped by the motivation for FDI and the acquirer's performance, amongst other factors. The model proposed in this paper can help managers to make more informed decisions when faced with choices. The paper draws the attention of the policy makers on the issue of home country perceptions prevailing over firm choices in FDI decisions. In particular, the policy makers in the emerging markets have to look closely at the issue of ownership concessions by the EMNCs to mitigate negative stakeholder sentiments in the foreign markets. Moreover, it is in the interest of policymakers to assess whether the ownership concessions facilitate or curtail cross-border knowledge flows. Such flows can affect the home country competitive environment in the long run.

This study has some limitations. First, I base my findings on cross-border acquisitions by firms from one emerging market, namely India. Additional research incorporating evidence on the acquisitive behavior by firms from multiple countries can shed more light on home country advantages and disadvantages. Second, I have assumed that the stated intent for CBAs aired by EMNC management in media is true. However, the stated objectives for acquisition may be quite different from the actual objectives. In this regard, future research may provide interesting insights by tracking some of these acquisitions in the post-acquisition phase for the realized and unrealized objectives. Finally, due to limitations of data availability, I could not incorporate more controls related to target firm characteristics in our model. Future research may well address some of the above weaknesses.

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