COLONIZATION, INSTITUTIONS, AND CROSS-BORDER ACQUISITION DECISIONS OF EMERGING MARKET MULTINATIONAL ENTERPRISES

by

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ABSTRACT

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This research focuses on cross-border acquisitions of emerging market multinationals (EM MNEs). Opposing theoretical perspectives of colonial ties (i.e., country ties between the acquiring and target firm countries, with the former being a colonized country and the latter being a colonizer country) are argued as predictors of EM MNE equity participation. Colonial tie is discussed as a source of legitimacy that can lower legitimacy threats (i.e., the likelihood of being deemed as illegitimate) via promoting similarities in informal institutions of the home and host countries. On the other hand, colonial tie is argued to be a historical event that can increase legitimacy threats due to perceived superiority of the colonizer. Chapter 1 contains an overview of and rationale for the study. Chapters 2-4 cover the literature review, theoretical development, contributions, and avenues for future research. This research fills the gap in literature by introducing colonization as a historical perspective with which to understand equity participation decisions.

COLONIZATION, INSTITUTIONS, AND CROSS-BORDER ACQUISITION STRATEGIES OF EMERGING MARKET MULTINATIONAL ENTERPRISES

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CHAPTER I: INTRODUCTION

Overview

Emerging market multinational enterprises (EM MNEs) are theorized as multinationals that often seek greater equity participation via cross border acquisitions (CBAs) because of their home country's poor quality of formal institutions (Luo & Tung, 2018). The volatile nature of their home country's poor quality of formal institutions prevents them from developing long-term firm strategies or building firm capabilities (Hoskisson et al., 2000). Thus, by seeking greater equity participation, EM MNEs are able to increase their capabilities in a shorter period, as opposed to international expansion via Greenfield (Luo & Tung, 2018).

EM MNEs often seek to increase equity participation via CBAs in countries with stronger formal institutions (Liou et al., 2016). Extant literature theorizes that informal institutional distance negatively influences equity participation due to the negative implications of legitimacy[1] threats faced by the acquirer (Liou et al., 2016). That is, the lack of acceptance of the acquiring firm's norms and values by the host country can result in numerous negative implications for the acquiring firm seeking greater equity in the target firm. For instance, the acquiring firm deals with unfavorable treatments by the host country, difficulties combining and transferring internal institutional arrangements with the target firm, and difficulties in obtaining information about the local environment

[1] "Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." (Suchman, 1995, p. 574).

(Beugelsdijk et al., 2018). Together, these problems can result in negative post-acquisition outcomes for the acquiring firm, especially if the EM MNE has greater jurisdiction over the target firm and is expected to interact with internal and external stakeholders more than those in the target firm (Miller & Parkhe, 2002).

Legitimacy threats occur because greater differences in the norms and values (i.e., informal institutions) of the acquiring and target firm countries imply that the acquiring firm is unable to abide by the target firm country's norms and values (Kostova et al., 2008; Zaheer, 1995). Although the use of legitimacy to explain the relationship between informal institutional distance and equity participation greatly contributed to the equity participation literature, this perspective fails to consider historical events to better understand what is deemed as legitimate. Exploring legitimacy from a historical perspective can shed light onto why certain informal institutions are legitimate, how certain informal institutions become legitimate, and how the origin of legitimacy can provide a comprehensive understanding of equity participation decisions.

To address this gap in the literature, this research builds on institutional theory (Scott, 2001) and postcolonial theory (Said, 1978) to discuss that colonial ties between countries, which is a historical effect of colonization, explain how and why firms and their countries' norms and values are deemed as legitimate. The colonial ties argument is applied to the equity participation literature to explain the source and impact of legitimacy on equity participation. Equity participation is defined as the size (in percentage) of ownership stake that a firm seeks to own in a target firm (Gaffney et al., 2016). On the one hand, this dissertation proposes a negative effect of colonial ties on equity participation due to perceived inferiority of the acquiring firm country to the host country. On the other hand, this dissertation proposes a positive effect of colonial ties on equity participation as well as the mediating effect of informal institutional distance and the moderating effect of length of colonization due to similarity in both firm countries' informal institutions. This research focuses on informal institutions (conventions and codes of behavior) as opposed to both formal (rules, regulations, and laws that are devise and enforced) and informal institutions (North, 1990). The reason is because the negative relationship between informal institutional distance and equity participation, as theorized in the EM MNE CBA literature, is based on legitimacy attained in the target firm country. The relationship between formal institutional distance and equity participation is contrary to the logic of legitimacy in that EM MNEs seek greater equity with greater formal institutional distance as a means to gain more strategic assets and capabilities. Due to the implications of informal institutional distance-equity participation relationship for legitimacy argument, this research is focused on informal institutional distance.

This research contributes to the extant equity participation literature by integrating postcolonial theory and institutional theory to introduce colonization as a historical perspective with which to understand legitimacy in the equity participation literature. Next, this research opens the discussion to multiple approaches that the acquirer can use to attain legitimacy in the target firm country, beyond similarities of both countries' informal institutions. Furthermore, this study introduces the colonizer countries' (target firm country) influence on colonized countries (acquiring firm country) as an additional explanation to why similarities in informal institutions foster legitimacy attainment (i.e., to be deemed as legitimate) in the target firm country. The target country was chosen as the colonizer and acquirer country as the colonized country because this study aims to extend prior findings by providing one reason why acquirers can face legitimacy threats in the target firm country (as is already established in the literature). The consideration of acquirer country as colonizer and target firm country as colonized would be contrary to extant findings in that acquirers would be embraced by the target countries and not have to face legitimacy threats. Lastly, this research explains that by deferring equity ownership to the target firm, an acquirer (from a seemingly inferior country) avoids legitimacy threats that may ensue from having control over a target firm from its colonizer country.

This research presents several theoretical implications. First, this research shows that EM MNEs making acquisitions may consider the positive and negative implications of engaging in CBAs with colonial ties, especially in terms of how equity participation decisions may result in the increase or decrease of legitimacy threats in the target firm country. On a broader spectrum, this research brings the role of history to the forefront on internationalization research (Jones & Khanna, 2006) by highlighting that colonization, as a historical event, affects CBA decisions. In terms of practical implications, this research explains that managers of both acquiring and target firms must engage in conflict management training to manage potential conflicts stemming from superior-inferior dynamics between acquiring and target firms. Finally, in terms of policy implications, this research shows the importance of emerging market governments to strengthen bilateral relationships with colonizer countries as a means to reduce potential legitimacy threats that EM MNEs may face in target firm countries.

Gaps in the Literature

Earlier equity participation studies that build on institutional theory examine the influence of institutional differences (i.e., formal and informal) on equity participation (e.g., Chari & Chang, 2009; Chikhouni et al., 2017; Dikova et al., 2010; Malhotra et al., 2011a; Ragozzino, 2009). Scholars examining the influence of formal institutional distance on equity participation indicate that EM MNE acquirers seek greater equity participation when formal institutional distance between the acquiring and target firm countries is greater (e.g., Deng & Yang, 2015). This occurs because operation in these formal institutional settings allows EM MNE acquirers to escape their home country, which is characterized by poor market-supporting institutions. Through greater equity ownership in the target firm, EM MNEs gain access to critical resources (Luo & Tung, 2007). Examples of such CBAs include Turkey's Yilport Holding AS acquisition in Sweden's Gavle Container Terminal AB (Port Strategy, 2016), and Philippines's Alsons Prime Investments Corp acquisition in Australia's Indophil Resources NL in 2014 (The Philippine Star, 2014). Yilport Holding AS had plans to be in the global top 10 port operators by the year 2025, and undertaking such CBA in Gavle was a strategy toward the goal. These CBAs were taken upon by the respective emerging market firms in hopes that these emerging market firms would benefit from the target firm's stronger company image and capabilities to further develop the acquiring firm (Luo & Tung, 2018).

In studies investigating the influence of informal institutions on equity participation, findings show that EM MNE acquirers seek smaller equity participation in target firm countries when informal institutional distance is greater (Liou et al., 2016). For instance, according to Hofstede's six cultural dimensions, South Africa's informal institutions are similar to Australia's informal institutions in all of the six dimensions. The SDC Platinum Database report of CBAs between these two countries shows that between the years of 1997-2018, South African firms acquired more majority equity stake (approximately 102 CBAs) than minority equity stakes (approximately 70 CBAs) in Australian firms. Using institutional theory as the theoretical framework and legitimacy as a mechanism through which informal institutional distance influences equity participation, scholars explain that this choice is undertaken to reduce legitimacy threats that acquirers may face in the target firm country (e.g., Contractor et al., 2014; Liou et al., 2016). That is, lack of familiarity with the target firm country's informal institution increases potential legitimacy threats in the target firm country.

By applying Suchman's (1995) definition of legitimacy, scholars (e.g., Liou et al., 2016) explain several reasons why an acquirer expanding into an institutionally distant location lowers legitimacy threats by seeking lower equity participation. One reason states that by communicating less with the local environment and allowing the target firm to be the primary contact for locals, the acquirer reduces the potential for misunderstandings with the local environment and increases the likelihood of being accepted by the local environment (Kostova & Zaheer, 1999). Another explanation states that less frequent interactions with the local environment may lower the chances of destroying relationships with the locals, especially because the acquirer lacks awareness of the norms and values of the local environment (Kostova et al., 2008). Thus, providing majority equity stake to the target firm will allow the acquiring firm the opportunity to learn the norms and values of the locals and build social capital with the local environment by learning from, and emulating, the target firm's interaction and maintenance of relationships with the local environment (Yiu & Makino, 2002).

The application of the concept of legitimacy to the equity participation literature is discussed from a historical[2] perspective. However, according to Suchman (1995), legitimacy "is dependent on a history of events" (p. 574), but this perspective is yet to be introduced to legitimacy arguments in the equity participation literature. The understanding and analysis of legitimacy from a historical perspective would involve the examination of authority figures (those who determine what is legitimate) and subordinates (those who abide by what is deemed as legitimate) in order to understand how and why particular norms and values become legitimate (Suchman, 1995; Tost, 2011; Tyler, 1997). For instance, the legitimacy argument could be understood using colonization because colonization is a historical event between countries that involved the domination over a region or a set of people and legitimation of entities (Loomba, 2015). Colonizers, as authority figures, aimed to have dominion over colonized countries, and these colonizers pressured colonized countries to abide by their norms and values (Loomba, 2015), such as in the case of Latin American indigenous people when the Spanish invaded and forced the practice of their norms and values on the Latin Americans (Elizalde, 2016).

Furthermore, the use of legitimacy to explain equity participation decision does not consider other definitions of legitimacy beyond Suchman's (1995) definition, thus providing limited perspective of the focus of legitimacy judgment (i.e., legitimate entities' actions) as well as the outcomes of legitimacy (i.e., isomorphism). Taking other definitions of legitimacy into consideration, Table 1 shows the differences in the

[2] Lacking a historical perspective with which to understand equity participation decisions.

definitions and explanations of legitimacy between Tost (2011) and Suchman (1995). Tost's (2011) definition of legitimacy aligns with the arguments that due to colonizers' superiority over those who were colonized, the colonizers condemned the norms and values of the colonized and termed their ways of life as barbaric and primordial (Barry, 1995). By doing so, colonizers delegitimated the colonized because colonized societies identified with their own ways of life.

Table 1

Difference Between Tost's (2011) and Suchman's (1995) Definitions of Legitimacy

	Tost (2011)	Suchman (1995)
Definition	"Entities are judged to be legitimate when they are seen as appropriate for their social context" (p. 688).	"Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." (p. 574).
Focus	Entities	Actions of entities
Basis (Categories)	Pragmatic, moral, and cognitive	Instrumental, relational, and moral
Source	Legitimacy is decided by individual(s)	Legitimacy is decided by the public

(table continues)

Table 1 *(continued)*

	Tost (2011)	Suchman (1995)
Mechanism	Organizations follow what is already established as legitimate (through continuity of legitimate practices)	Organizations seek legitimacy (through credibility or continuity)
Antecedents	Passive or evaluative information processing	Entities seeking passive or active support, or through credibility or continuity
Consequences	Deference to authorities and institutional constraints	Isomorphism to local environment

The consideration of multiple theoretical perspectives of legitimacy may augment and advance the extant knowledge and yield multiple implications about how legitimation of acquirers affects equity participation decision. For instance, while Suchman's (1995) theoretical explanation of legitimacy considers the appropriateness and desirability of an entity's actions within a socially constructed system as legitimate, Tost's (2011) theoretical explanation of legitimacy is focused on the judgment of entities themselves as appropriate within a social context. Furthermore, Suchman (1995) explains that a consequence of legitimacy is isomorphism (i.e., similarities in informal institutions) to the local environment. However, Tost (2011) emphasizes deference (i.e., yielding to positions of authority) to authority figures and institutional constraints as a consequence of legitimacy. Thus, the focus of an entity's actions (Suchman, 1995) versus the entity itself (Tost, 2011) to judge legitimacy produces different consequences (isomorphism versus deference). When colonization is considered as a contextual factor to understand the implications of legitimacy for equity participation, one would assume that the acquiring firm's adherence to the norms and values of the target firm country is as a result of being from a colonized country that was made to adopt the target firm country's norms and values (Suchman, 1995). However, when Tost's (2011) definition of legitimacy is used to understand how acquirers attain legitimacy in the target firm country, legitimation is not based on isomorphism to the target firm's norms and values, but instead the acquirer's status is of importance in the determination of legitimacy. Thus, one could ask: Is abiding by the norms and values of the target firm's country sufficient enough to influence acquirers' decision to seek greater equity participation (due to lower legitimacy threats)? Also, do acquirers, as firms from countries that were colonized by the target firm's countries, defer equity ownership to the target firm via lower equity participation as a means to avoid facing legitimacy threats that may stem from being deemed as inferior to the target firm (colonizer) country?

Lower equity participation is a form of deference because the target firm (owning more equity) becomes the main point of contact and communicates with the local environment (Kostova et al., 2008). In addition, the target firm is responsible for (a) discovering future opportunities and risks in the local environment (Zaheer, 1995), (b) searching for resources available in the local environment (Yiu & Makino, 2002), and (c) building social capital with the local environment (Yiu & Makino, 2002). Thus, isomorphism (which focuses on the similarity in informal institutions) may not be sufficient to achieve legitimacy because in any given context, legitimacy can be assessed using other criteria (Deephouse et al., 2017; Tost, 2011) such as deference, which focuses on giving up positions of authority to reduce legitimacy threats.

Theoretical Model

The purpose of this dissertation was to address the gaps highlighted above. This research integrates institutional theory and postcolonial theory to theorize the opposing effects of colonial ties on equity participation. By integrating postcolonial theory (Said, 1978) to institutional theory (Scott, 2001), this research introduces a historical perspective (i.e., colonization as a historical event) to the extant understanding of the role of legitimacy in the equity participation literature. In the first theorization, postcolonial theory is used to explain that mimicry (proxied as colonial tie) has resulted in similar informal institutions between colonial ties (i.e., lower informal institutional distance). Mimicry in the context of colonization refers to colonizers' influence of their norms and values on colonized countries to reconstruct the identities of the colonized (Bhabha, 1994). Institutional theory is then employed to explain that this similarity in informal institutions between colonial ties (when colonial ties are between EM MNE acquirer and target firm countries) will influence greater equity participation by EM MNEs due to lower legitimacy threats the EM MNE is likely to face in the host country. Furthermore, postcolonial theory is applied to explain that the length of colonization in the colonized country (i.e., acquiring firm country) weakens the negative relationship between colonial ties and informal institutional distance. This is because longer period of colonizers in colonized countries will likely increase the mimicry effect of colonizers' norms and values. The opposite effect of colonial ties on equity participation is theorized by using postcolonial theory to explain that a superiority-inferiority dynamic formed during colonization where colonizers coerced colonized countries to comply with their norms and values in order to avoid facing legitimacy threats. A superiority-inferiority dynamic and its effect on legitimacy is likely to trickle down to the CBA context where EM MNEs from colonized countries may seek lower equity participation due the expectations to always comply to the target firm from colonizer countries.

Research Questions

To address the gaps in the literature, this study aims to address the following specific questions:

1. Do colonial ties between the acquiring firm and target firm countries influence EM MNE equity participation in the target firm?

2. Do colonial ties increase or decrease legitimacy threats that EM MNE acquirers may face in a target firm country?

3. Does colonization length in the acquirer's country increase mimicry of the norms and values of colonizers in the colonized countries?

Phenomenon Under Study – Country Focus

There have been several classifications of emerging markets over the years (Hoskisson et al., 2000), but due to developments that occurred in some emerging markets over the years (and underdevelopment in other emerging markets), many classifications of emerging markets are outdated. For instance, the United Nations lists Singapore as a developed country despite its recent rapid developments and agreements among some scholars that Singapore is no longer considered a developing country (e.g., Wilson, 2000). For this reason, Morgan Stanley Capital International's (MSCI) classification of emerging markets (Morgan Stanley, 2021) is used to define the emerging markets that are examined in this dissertation. MSCI classifies these countries as 'emerging economies' based on five criteria: openness to foreign investment, capital inflows and outflows, operational framework efficiency, investment instruments availability, and institutional framework stability. Table 2 contains the list of emerging markets that are the focus of this dissertation, as well as the number and value of CBAs in these countries based on the United Nations Conference on Trade and Development's (UNCTAD's) report. In terms of the number of CBAs, EM MNEs from these emerging markets engaged in roughly 68% of CBAs out of the total CBAs coming from non-developed countries between 1990-2020 (UNCTAD, 2021). In terms of the value of CBAs, EM MNEs engaged in about 79% of CBAs from non-developed countries between the years 1990-2020.

Table 2

Emerging Markets Considered in this Study

Emerging Markets	Number of CBAs	Value of CBAs (in U.S. Dollars, millions)
Argentina	182	10660.3
Brazil	432	68783.6
Chile	292	29869.4
China	3164	674707.2
Colombia	186	26270.3
Czech Republic	245	9270.9
Egypt	76	26982.7
Greece	321	15718.5
Hungary	123	4486.6
India	1676	113768.6
Indonesia	153	10183.8
Kuwait	174	6756.2
Malaysia	1437	62318.2
Mexico	535	86398.4
Pakistan	19	183.9
Peru	110	3781.3
Philippines	233	9625.6
Poland	335	13944.2
Qatar	224	58213.4
Russia	844	82191.7
Saudi Arabia	263	50406.6
South Africa	992	20528.8
South Korea	892	92186.1
Taiwan	454	24607.7
Thailand	406	47759.8
Turkey	205	8757.6
United Arab Emirates	632	108915.1
TOTAL	14605	1667277
PERCENTAGE	67.73%	78.86%

Colonizer countries considered in this research are those that colonized some of the emerging markets listed in Table 2. Although, several colonized countries experienced the invasion of multiple colonizers, The Issues Correlates of War Project reports that only one colonizer had major influence per colonized country (Hensel & Mitchell, 2007). Also, the colonizer countries considered in this research were major colonial powers from the last five centuries, and their colonies gained independence from the 19th century onwards. These colonizers include Japan, The Netherlands, Portugal, Spain, Turkey, and the United Kingdom. Table 3 provides a list of emerging markets, their colonizers (if emerging markets had a primary colonizer), the year in which their primary colonizer invaded their countries (according to Britannica's reports) (Encyclopædia Britannica, n.d.), and their independence date.

Table 3

Emerging Markets and Colonizers

Emerging Markets	Primary Colonizers	Year Colonizer Invaded	Independence Date
Argentina	Spain	1535	1816
Brazil	Portugal	1500	1822
Chile	Spain	1536	1818
China	None	-	-
Colombia	Spain	1525	1819
Czech Republic	None	-	-
Egypt	None	-	-
Greece	None	-	-
Hungary	None	-	-
India	United Kingdom	1600	1947
Indonesia	Netherlands	1815	1949
Kuwait	United Kingdom	1899	1961
Malaysia	United Kingdom	1786	1957
Mexico	Spain	1525	1821
Pakistan	United Kingdom	1600	1947
Peru	Spain	1524	1824
Philippines	Spain	1565	1946
Poland	None	-	-

(table continues)

Table 3 *(continued)*

Emerging Markets	Primary Colonizers	Year Colonizer Invaded	Independence Date
Qatar	United Kingdom	1868	1971
Russia	None	-	-
Saudi Arabia	Turkey	1798	1926
South Africa	United Kingdom	1620	1910
South Korea	Japan	1895	1948
Taiwan	None	-	-
Thailand	None	-	-
Turkey	None	-	-
United Arab Emirates	United Kingdom	1819	1971

Conclusion

Chapter 1 provided a general overview of this research, including the gap, model, research questions, contribution, and implications of this research. This chapter also highlighted the gap in the literature, which states that there is not yet a consideration of a historical perspective to understand legitimacy in the equity participation literature. To introduce a historical component into legitimacy, this research integrated institutional theory and postcolonial theory to propose that colonization as a historical event can explain why norms and values are deemed as legitimate in a target firm country. In the proposed relationships, competing theoretical perspectives are developed whereby colonial ties are discussed as a positive and negative influence on equity participation via a decrease (or increase) in legitimacy threats. Informal institutional distance is theorized as mediating the relationship between colonial ties and equity participation, and length of colonization moderates the relationship between colonial ties and informal institutional distance. This research fills a gap in the literature by introducing colonization as a historical event that explains legitimacy during CBAs as well as its effects on equity participation. This study's findings offer implications on the equity participation literature by highlighting that EM MNEs consider positive and negative implications of colonization for legitimacy during equity participation, and that emerging market governments should strengthen colonial ties as a means to reduce potential legitimacy threats that EM MNEs may face across border. The next chapter provides literature reviews on institutional theory and postcolonial theory, emerging markets, EM MNEs and CBA decisions, institutional distance, and equity participation.

CHAPTER II: LITERATURE REVIEW

Introduction

This chapter provides a review of literature streams on institutional theory and postcolonial theory, emerging markets, emerging market multinational enterprises (EM MNEs), and equity participation. This chapter is divided into six sections. In the first and second sections, postcolonial theory and institutional theory are discussed. The third section examines different conceptualizations of institutional distance in the cross-border acquisition (CBA) literature. The fourth and fifth sections overview emerging markets institutions and strategies of emerging market firms as well as a synthesis on the findings on EM MNE CBAs. Finally, the last section synthesizes studies on equity participation.

Conceptual Framework: Postcolonial Theory

Postcolonial theory, also known as "postcolonial studies" or "postcolonialism" (Boussebaa et al., 2014), is an interdisciplinary field that focuses on the effect of colonization on cultures and societies (Ashcroft et al., 2013). Colonization effects include the formation of cross-country relations, introduction of colonizers' cultures in colonized societies (Bhabha, 1994), and generally, continuities and discontinuities of past or new modes and forms of old colonialist practices (Shohat, 1992). Postcolonial theory also emphasizes the superiority-inferiority dynamics between colonizers and colonized countries (Boussebaa et al., 2014). Some common assumptions of postcolonial theory include: an imbalance of power between the colonizer and the colonized (which is sometimes examined in the form of the West as the colonizer versus. the East as the colonized). Second, colonizers are being presented as the ideal figures or the norm, while the colonized are being presented as the 'other' or the figure that needs to be controlled. Third, there is a change of identities of colonized societies to mimic colonizers' identities. Lastly, colonization affects the social, political, and economic aspects of colonized societies. Postcolonial theory is extensively studied in anthropology, linguistics, literature, law, history, women's studies, religious studies, economics, and political science literatures (Ashcroft et al., 2013; Bhabha, 1994; Loomba, 2015) and is recently being recognized in the international business literature (Boussebaa et al., 2014).

Three main scholars greatly contributed to postcolonial theory: Edward Said, Gayatri Spivak, and Homi Bhabha. Said (1978) introduced the ideas of postcolonial theory in his book titled *Orientalism*. He discussed that when a group of people have a significant amount of power (referring to the West), these groups of people are likely to greatly influence the culture of those with lesser power (i.e., the East). Said (1978) further stated that the West is often represented as the more logical set of people, and therefore, have the ideal set of institutional systems, norms, and values when compared to the East, and that the West deprived the East of its ability to develop its own identities. He mentioned that the West's knowledge and representation of the East is what creates this power domination. The relationship dynamic of superiority versus inferiority between colonizers and the colonized is still emphasized in the modern day and is often used to explain cross-country relations, especially first world-third world geopolitical relations and the heavy dependency of third world countries on first world countries (Frenkel, 2008). The International Monetary Fund (IMF) is an example of an institution where such dynamics materialize. A purpose of IMF's existence is to grow economies and alleviate poverty through provision of funds to countries (IMF, 2021). The IMF largely focuses on providing financial assistance to emerging economies in hopes that the financial assistance goes toward reducing poverty. In fact, the IMF website explicitly states that it is committed to providing a variety of financial support to low-income countries in particular. The largest borrowers of IMF funds are emerging economies: Argentina, Egypt, Ukraine, and Pakistan.

Spivak buttressed Said's argument by stating that the West is considered as the norm, while the East is considered as "other" (Spivak, 1988). She mentioned that even when the Easterners try to represent themselves, the West dominates and silences them, but if those who are considered intellectuals in the East are provided with the opportunity to speak up, the East can be represented and can have its own voice. Bhabha who focused on the emulation of cultures, indicated that when one culture (i.e., colonizers) dominates another (the colonized), mimicry of the domineering culture is likely to take place (Bhabha, 1994). He explained that hybridity might occur, where the colonized chooses to maintain some of their own norms and values while adopting the colonizers' norms and values. Hybridity often results in a mix of multiple norms and values within colonized societies. He further highlighted that although colonizers want those who were colonized to mimic their norms and values, colonizers want the colonized to not entirely get it right; that is, colonizers want the colonized to somewhat fail at adapting their own norms and values or, rather, be second best.

Barry (1995) discussed that postcolonial writers often follow one or more of these four primary characteristics of the effects of colonization:

1. Non-Europeans are associated with being “exotic” or “immoral other” – Non-Europeans are deemed as barbaric, primordial, and exotic humans that are lagging in civilization, while those from European heritage are seen as the ideal group of people whose ways of life must be emulated.
2. Language is a tool used to support or subvert power – Language becomes a tool that is used to promote dominance over colonized countries. For example, European languages are enforced in the rest of the world as the language that should be adopted. Language can also be a tool that is used to fight against dominance by the Europeans. For instance, the pre-colonial language(s) of colonized countries are encouraged and promoted by some so that the European languages are abandoned.
3. Identities are no longer singular and static, but rather, identities are hybrid, double, or unstable – Colonized societies embody multiple norms and values, including colonizers’ norms and values adopted by the colonized and pre-colonial norms and values of the colonized.
4. Cross-cultural interactions increased as a result of colonization – Cross-cultural interactions can happen in three steps: adoption, adaptation, and being adept. First, *adoption* refers to the adoption of the European model, known to be the ‘universal’ model. Second, *adaptation* refers to the blending or mixing of the European model with that of the ‘other’ model. The third step is *being adept* at combining the European model with the ‘other’ model to make one’s own unique model.

While extant research has paid attention to narrow and specific areas of postcolonial theory to understand the effects of colonization on the world, postcolonial theory is not easily categorized into a narrow spectrum. Rather postcolonial theory is examined as a theory that explains a vague condition where people everywhere are affected in different ways (Loomba, 2015). This is evident in the various colonization patterns of colonizers. Colonizers moved and settled in different colonized countries, and these colonizers had different goals to achieve with each colonized country. Some colonies experienced more extractive institutions where colonizers aimed to extract resources in the given colonized state (as is the case with some African countries where colonizers were unable to settle due to diseases that resulted in high mortality rates – [Acemoglu et al., 2001]). Others experienced more settler colonialism where colonizers relocated to the particular colonized countries and settled in these locations (such as in Latin America where the Spanish and the Portuguese moved and settled permanently and in large numbers (Loomba, 2015). Some settlers mixed and blended with the native populations (i.e., Latin America, Philippines, and Goa), while others separated themselves from the native population (i.e., Africa). Colonialism also involved the importation of the enslaved where colonizers established plantation colonies (ex., Brazil or the Caribbean), whereas, other colonized countries did not experience the importation of the enslaved (Loomba, 2015). In plantation colonies, a complex mix of races among individuals and cultures formed during and after the end of colonization, but in extractive institutions, there was little to no complex mix of multinational cultures and races.

Other outcomes of colonization are apparent in today's societies. For example, colonized societies adopted and benefited from the implementation of infrastructures, healthcare, and the educational systems of colonizers (Ball, 1983). Also, colonization resulted in the formation of new nations by colonizers through the enactment of geographical boundaries that resulted in the separation of certain cultures (or groups of people), thereby, increasing fractionalization for some cultures (Alesina et al., 2003). Lastly, institutional systems that were formally decentralized became more centralized due to the influence of colonizers, and the lack of ability or knowledge to manage and organize a centralized institutional system resulted in failed institutions in some colonized countries (Acemoglu et al., 2001; Englebert, 2000).

In spite of the advancement of postcolonial theory, there is a dearth of literature stream integrating postcolonial theory with international business studies. That is, several components of international business decisions and strategy streams lack the consideration of postcolonial theory but should be considered. First, in the literature on cross-country relations and their influence on a firm's location choice for international expansion (Jain et al., 2016), colonization is largely non-existent, even though colonization had great impact in the formation of cross-country relations. Also, colonization had an influence in the promotion of certain norms and values via globalization (e.g., the promotion of the English language), but international business research tends to focus on globalization and ignores why certain norms and values are promoted more than others (Leung et al., 2005). Lastly, international business literature examines the concept of biculturalism and multiculturalism as a competitive factor for employees in a multinational enterprise (Johnson et al., 2006), but the international business literature fails to consider this stream from the viewpoint of colonization as an origin for mixed identities. Thus, international business and strategy literature must begin to explore postcolonial theory for a more comprehensive understanding of factors that affect international business decisions and strategies.

Conceptual Framework: Institutional Theory

Institutional theory explains that “social structures such as schemas, rules, norms, and routines become established as authoritative guidelines for social behavior” (Scott, 2005, p. 460). An underlying assumption of institutional theory is that institutions exist to constrain what organizations do, and institutions provide conditions under which certain activities should be conducted (North, 1990). Institutions legitimize or de-legitimize organizations based on whether organizations align with institutional expectations (Suchman, 1995). Institutional theory stems from different theoretical perspectives, including public policy and ecology (Scott & Meyer, 1983), neoclassical theory in economics and rational theory (North, 1990; Williamson, 1975), behaviorism in political science (Scott, 2001), positivism in sociology (Hughes, 1939; Parsons, 1934), cultural anthropology, and sociology (DiMaggio & Powell, 1991; Douglas, 1986).

Institutions vary based on formal and informal patterns of organizations (North, 1990). Furthermore, institutions are formed and introduced by bureaucratic controls, and these bureaucratic controls constrain undesired practices (DiMaggio & Powell, 1983). Following the introduction of new practices by these forces, organizations within the institutions are expected to adopt and live by the new practices, or face legitimacy threats (DiMaggio & Powell, 1983). For this reason, organizations feel the pressure to abide by institutional practices.

Institutional theory is used in international business literature to understand the complexities that multinational enterprises face during internationalization into a foreign nation and with limited information about the foreign country's institutional systems, norms, and values (Kostova et al., 2020). With institutional theory, researchers learned that organizations are expected to comply with institutional pressures in host countries in order to adapt to a country's social and economic environment (Ghoshal & Bartlett, 1990). Organizations face the complexities of needing to globally integrate production processes as well as deal with local responsiveness (Kostova et al., 2008). Subsidiaries in the host country also face pressures of complying with parent company practices (assuming that the parent company is in a different country) while still being locally responsive to the host country (Kostova & Roth, 2002). When MNEs seek to transfer certain firm practices to host countries, these MNEs must assess whether the firm's practices align with the institutions of the host country (Kostova, 1999).

An example would be CBAs between countries such as Saudi Arabia (dominated by those who practice Islam and operating on a legal system guided by Sharia law) and Ireland (dominated by Catholics and operating on a legal system largely based on common law) (Kittleson et al., 2019). These two countries are very dissimilar in their norms and values (Hofstede, 1980). Due to great differences in the formal and informal institutions of both countries, there will likely be fewer numbers of CBAs between the two countries and/or lower equity ownership among firms from both countries. As expected, SDC Platinum Database report shows that these two countries barely engage in CBAs; two CBAs between the two countries occurred during the 1997-2018 time period. The earlier CBA occurred in 2012 between Saudi Arabia's SPIMACO and Ireland's EirGen Pharma Limited, and SPIMACO acquired 48% of shares in EirGen (Oaklins Morocco, n.d.). Within 3 years of this CBA, Saudi Arabia divested from EirGen and sold its stake to a US-based company, Okpo (ArgaamPlus, 2015). There was no information provided about why the divestment occurred.

Several major differences exist between formal and informal institutions, especially on their effects on MNE strategies during internationalization. First, formal institutions are prescriptive in nature. There are rules and laws with rewards and sanctions for compliance (Scott, 2001), and the rules and laws are considered as coercive isomorphic pressures, while informal institutional pressures are normative and mimetic, and do not require compliance (Kostova & Roth, 2002). Informal institutions are norms and practices that reflect societal beliefs, values, and norms. Also, informal institutions are designed as desirable societal goals and schemas that are used to interpret information (Kostova, 1997).

In addition, formal institutions are formal, codified, transparent and clear, and can at times require occasional adjustments, thus making them more easily understood and adopted by newcomers (i.e., MNEs in host countries). Even when formal institutional distance between home and host countries is higher, MNEs entering into the host country can more easily adapt to and adjust to the formal institutions of the host country. On the other hand, informal institutions are harder to understand because these forms of institutions are salient and tacit (Scott, 2005), and often require experiential learning processes through close and repeated interactions with individuals and the local environment (Boyacigiller et al., 2004).

Lastly, and focusing particularly on equity participation literature, formal and informal institutional distances have opposing effects on equity participation choice (Estrin et al., 2007). Differences in informal institutions hinder the ability for the MNE to attain legitimacy in the local environment (Kostova & Zaheer, 1999). With greater informal institutional distance between home and host countries, the MNE is expected to choose entry modes that facilitate learning so that the MNE can partner with target firms in the local environment in order to gain tacit knowledge about the local norms and values (Estrin et al., 2007). On the contrary, greater formal institutional distance does not result in the pressure to gain local legitimacy or to acquire tacit knowledge in the local environment (Estrin et al., 2007). Instead, the MNE is more motivated to establish a greenfield (i.e., establishing a new enterprise) as a means to create a new firm that models the MNE parent firm's image and that fits the global organization (i.e., thus, benefiting from economic advantages of establishing a global strategy). Doing so allows the MNE to operate within the formal institutional expectations of the host country. Thus, formal institutional distance increases the propensity for greenfield investment, while informal institutional distance has an opposite effect.

Despite the clear differences between formal and informal institutions and their impact on MNE internationalization strategies, these studies have yet to consider a historical perspective of formal and informal institutions. That is, researchers are yet to understand origins of how and why formal and informal institutions impact internationalization strategies. There is need to provide explanations of conditions under which formal and informal institutional factors play a role in internationalization strategies, including in terms of why certain countries are more similar than others. These similarities avail both countries the opportunity to avoid legitimacy threats and conduct international business. Thus, research must look into history as a factor that explains why formal and informal institutions impact MNE internationalization strategies.

Institutional Distance and Cross-Border Acquisitions

A variety of conceptualizations and measurements of cross-country distance is developed to understand how cross-country distance influences CBA outcomes. These cross-country distance measures vary widely from formal institutional distance to informal and geographic distances. These conceptualizations are known to predict CBA outcomes, such as the duration and completion likelihood of CBAs, acquisition premium, performance of the acquiring firm, location advantages, number and value of acquisitions, and equity participation (Xie et al., 2017). A wide variety of acquiring and target firms' institutional backgrounds are also applied in these studies to understand whether findings differ by the acquiring and target firm location (Shimizu et al., 2004).

In the studies predicting acquisition duration and completion likelihood, the findings overall indicate that cross-country distance negatively affects acquisition duration and completion likelihood due to lack of familiarity with the host country institutions (Dikova et al., 2010; Popli et al., 2016; Zhou et al., 2016). For instance, Dikova et al.'s (2010) research found that both formal and informal institutional distances have negative effects on the likelihood of acquisition completion due to the acquirer's unfamiliarity with the host country. In addition, Dikova et al. (2010) indicated that formal institutional distance has a negative effect on the time required to complete a publicly announced deal, and the negative effect of formal institutional distance is mitigated by acquirer's prior acquisition completion experience. For EM MNEs, similar findings also apply. For instance, Zhou et al. (2016) showed a negative influence of legal distance, regulatory distance, and country-risk distance on completion likelihood because greater institutional differences pose a challenge to firms engaging in international transactions.

Also, focusing on acquirers from India, Popli et al. (2016) discovered that greater cultural distance lowers the likelihood of completion due to uncertainties associated with international expansion into a foreign country. Overall, these studies indicate that greater cross-country distances are negatively related to acquisition duration and completion likelihood due to the acquirer's unfamiliarity with the host country and difficulties expanding into a foreign country.

Other studies reported on how cross-country distances influenced the value and number of acquisitions (e.g., Xie et al., 2017). Some of these studies focused on emerging economy MNE acquirers, while others compared economies (e.g., developed versus emerging economies) and even countries. Findings in this area vary based on the location and economic status of the acquiring and target firm countries. Buckley et al.'s (2012) research focused on Indian acquirers, and showed that for South-South CBAs, there is a negative effect of cultural and geographic distances on the influence on cross border deals. Meanwhile, Dikova et al.'s (2016) research on Russian firms reported that political stability distance positively moderates the incidence of deals. In the comparative study of developed versus emerging economies, Malhotra et al. (2011a) discussed that cultural distance is negatively related to the number of acquisitions, although, target country market potential moderates this relationship for emerging economy acquisitions, while the opposite effect is the case for U.S. acquisitions. Despite the lower number of CBA deals with greater cultural distance, EM MNEs prefer to engage in CBAs in target firm countries with better quality of general environmental institutions (e.g., stronger formal institutions) (Choi et al., 2016).

Other outcomes, such as acquisition premiums and choice of acquisitions over greenfield investment, are influenced by the acquirer's lack of familiarity over the host country. For example, Bertrand et al. (2016) determined that political affinity of countries influences acquisition premiums, where higher political affinity (which is measured as United Nations General Assembly Voting Rights) has a negative effect on premium that is paid to target firms. This is because governments of the target firm would likely interfere with the negotiation process and possibly impose strenuous requirements for foreign firms. Also, Arslan et al. (2015) discussed that foreign firms prefer acquisitions over greenfield in target firm countries when there are higher economic freedom distance, cultural distance, and country risk. By choosing acquisitions over greenfield, foreign firms reduce possible risks and uncertainties that may ensue from the lack of knowledge of the target firm's country, and are able to learn about the host country through the target firm.

The vast majority of research on the influence of cross-country distance on CBAs examined equity participation as an outcome. These studies either paid attention to the economy of the acquirer or target firm (i.e., developed or emerging), considered a comparative study of the two economies, or did not differentiate between economies. In the studies that did not consider differences in the economies, the findings generally pointed to lower equity participation in institutionally distant target firm country. For instance, Cuypers et al. (2015) discovered that acquirers would likely take on lower equity stakes when linguistic distance and differences in English proficiency is greater. While the combined English proficiency of both parties is positively related to equity stakes, cultural and linguistic distance reduced this effect.

Developed market MNE acquirers and EM MNE acquirers prefer lower equity with greater cultural distance (Chari & Chang, 2009; Liou et al., 2017; Piaskowska & Trojanowski, 2014). Comparative studies between developed and emerging economies showed that there is a negative relationship between cross-national distance (i.e., institutional, cultural, and geographic) and choice of equity ownership, but this effect is opposite for Latin American firms than for U.S. firms (Malhotra et al., 2016). Likewise, for other EM MNE acquirers seeking equity participation, most studies point to the findings that EM MNEs seek greater equity participation with greater institutional distance (Liou et al., 2016; Pinto et al., 2017; Yang & Deng, 2017). The findings for both firm countries (emerging versus developed) were different when formal institutional distance is considered. For instance, both the UK and BRIC (i.e., Brazilian, Russian, Indian, and Chinese) firms prefer to increase equity when the motive is greater knowledge protection, but emerging economy acquirers prefer target countries with greater economic development (Gaffney et al., 2016).

With geographic distance, researchers found a positive relation to equity choice (Malhotra, 2012; Malhotra & Gaur, 2014). On the other hand, psychic distance was found to be negatively related to equity ownership (Chikhouni et al., 2017), but when the direction of the acquirer's economy to the target economy is taken into consideration, acquirers from emerging economies prefer higher equity stakes in higher psychic distance countries. Unlike other EM MNEs, some findings for Chinese acquirers differed. For instance, Chinese acquirers are likely to take on lower equity stake in target countries with greater administrative and regulative distance but prefer higher equity stake in culturally and geographically distant target countries (Lee et al., 2014).

For studies on acquisitions targeting emerging economies, the findings varied in terms of the influence of institutional distance on CBA outcomes, and these studies often paid attention to a particular country or set of countries (Xie et al., 2017). For instance, Ferreira et al.'s (2017) study on the acquisition of Brazilian firms found that financial and cultural distance is positively related to full ownership, while greater geographic distance reduces the likelihood to partial ownership. Also, Contractor et al. (2014) focused on India and China as target firms to understand the influence of institutional and cultural distance, and found that higher uncertainty avoidance distance is negatively related to equity ownership, but there is no significant relationship of equity ownership with institutional distance. On the other hand, when targeting Indian firms, greater institutional distance is positively related to full equity ownership over partial equity control in soft-service and hard-service international acquisitions (Lahiri et al. , 2014).

Overall, the studies on the influence of institutional distances on CBA outcomes developed our knowledge on factors that impact CBA outcomes. Furthermore, these findings helped scholars understand under what conditions institutional distances impact CBA outcomes. A common occurrence of these researches is that scholars explain institutional distances as antecedents to CBA outcomes (Xie et al., 2017). This perception limits the extent to which we can understand how and why cross-national distances affect CBA outcomes. The mere assumption is that institutional distances are the beginning path to understand CBA outcomes. Meanwhile, several explanations report that institutions have become similar due to factors such as globalization, technological advancements, and colonization (Inglehart & Baker, 2000). As such, scholars should examine cross-national distances as influences other than as antecedents to help understand why institutional differences matter to explain these CBA outcomes. Also, despite the numerous benefits of similar institutional distance for CBAs, there is a dearth of research seeking to understand whether similar institutional distance can pose some disadvantages for CBA outcomes. For instance, Bauer and Matzler (2014) explain that similar institutional distance can be an indication of limited new knowledge that the acquirer is able to attain from the target firm. That is, CBAs characterized by similarity in both countries' institutional distance can limit the ability for the acquirer to create value. Future research must study potential benefits of greater institutional differences between the acquiring and target firm countries.

EM MNE Home Country Institutions and Strategies

Emerging markets suffer from the lack of market-supporting institutions (Khanna & Palepu, 1997). Several examples of the lack of market-supporting institutions that are apparent in emerging markets include weak legal frameworks that increase the likelihood of opportunistic tendencies (Nelson et al., 1998), weakly defined property rights (Devlin et al., 1998), and lack of enforcement of property rights (Estrin & Wright, 1999). Furthermore, emerging markets face volatile political environments and economic shocks (Hoskisson et al., 2000), the lack of resources for firms (Xu & Meyer, 2013), and corruption and bribery that discourage foreign direct investment activities (Habib & Zurawicki, 2002).

The weak market-supporting institutions in emerging markets hinder the ability for firms to develop and grow (Hoskisson et al., 2000; Khanna & Palepu, 1997; Xu & Meyer, 2013). These institutional conditions faced by firms in the emerging market context also influence firm decisions and outcomes (Peng et al., 2008). For instance, scholars indicated that due to the poor quality of institutions, EM MNEs lack firm resources and are unable to meet their needs within the firm (e.g., Hoskisson et al., 2000). For this reason, EM MNEs will likely pursue international expansion as a means to escape the lack of market-supporting institutions in their home countries and benefit from resources that are available in more developed markets (Liou et al., 2017; Luo & Tung, 2007). EM MNEs often prefer CBAs as an international expansion mode because through CBA, EM MNEs are able to gain knowledge, assets, and capabilities through acquisition with lesser time and effort as opposed to establishing a greenfield operation in the target firm country (Luo & Tung, 2018).

While there is an established understanding of the motivation for EM MNEs to engage in internationalization approaches, EM MNE internationalization studies must begin to study EM MNE internationalization patterns. Several questions need to be answered in this literature stream, such as why EM MNEs seek internationalization in certain developed countries and not others, and historical events that can explain patterns of EM MNE internationalization approaches.

EM MNE Cross-Border Acquisitions

EM MNE CBAs steadily increased over the past decade (UNCTAD, 2019). Between the years of 1990 and 2017, the number of EM MNE CBAs increased from 115 to 1142 (UNCTAD, 2019). Scholars are becoming more interested in understanding EM MNEs CBA strategies due to their unconventional patterns of CBA approach and their need to acquire strategic assets and capabilities (e.g., Sanfilippo, 2015). These EM MNEs often possess little to no prior experience in the international markets and no managerial capabilities (Sanfilippo, 2015), and for this reason, EM MNEs often target the acquisition of an already existing firm with valuable assets as opposed to setting up a greenfield (Luo & Tung, 2018; Sanfilippo, 2015). The acquisition of an already established firm provides EM MNEs the opportunity to catch up with their more developed counterparts (Gaffney et al., 2016; Hope et al., 2011) and develop long-term strategies in the host country (Kedia et al., 2012).

As EM MNEs seek CBAs as a primary means to engage in internationalization and to overcome poor institutional quality at home, these EM MNEs consider relative institutional differences between EM MNE home country and its host country (Gaffney et al., 2016). EM MNEs prefer to own more equity in institutionally distant locations because greater formal institutional distance is an indication that the host country is a market-supporting institution (Hope et al., 2011; Lee et al., 2014; Liou et al., 2016). On the contrary, greater informal institutional differences between the EM MNE home country and the host country create difficulties in the combination and transfer of organizational processes due to differences in the norms and values practiced in both institutions. Also, such differences create communication difficulties between the acquirer and the target firm local environment (Liou et al., 2016).

Although there is an increase in CBAs by EM MNEs, the literature on CBAs is under-studied (Deng & Yang, 2015). There is limited understanding about what conditions explain the acquisition behaviors of EM MNEs (Buckley et al., 2016). The presence of institutional constraints makes EM MNEs fundamentally different from the traditionally studied MNEs (i.e., developed economy MNEs), and scholars such as Hoskisson et al. (2000) suggest that further studies should be developed to explain EM MNEs and their internationalization strategies.

Equity Participation

Equity participation is the percentage of equity stake that the acquirer wishes to own in a target firm (Chari & Chang, 2009). In determining equity participation, the acquirer uses valuable information within and outside of the acquiring and/or target firm to determine what percentage of equity ownership is appropriate to seek in the target firm. Several studies highlighted factors that determine equity participation of CBAs (e.g., Gaffney et al., 2016). Although most CBA studies paid attention to MNE acquirers in general or DM MNE acquirers in order to understand the patterns of MNE decision-making on equity participation (e.g., Chari & Chang, 2009), few studies examined determinants of equity participation for EM MNE acquirers (e.g., Liou et al., 2016). Nevertheless, this literature review reveals factors that determine equity participation for EM MNEs as well as MNEs in general.

Several institutional characteristics play a role in determining equity participation of MNEs, including a country's macroeconomic and financial environment, political environment, regulatory environment, cultural environment, geographic environment, taxation environment, and accounting standards and valuation guidelines (Xie et al., 2017). For instance, Malhotra et al. (2011b) explore the influence of cultural and geographic distance between the home and host countries on equity ownership using contingency and hostage theory, and found that firms will tend to acquire higher equity stakes in low or high cultural distance. This is because firms seek the optimum equity investment strategy for their firm. Also, Ragozzino (2009) examined the influence of geographic distance on the choice of equity ownership, and found that the results aligned with the theory of the MNE. That is, while acquiring firms prefer full equity ownership in geographically proximate target countries, greater cultural and political distance weakens this relationship because acquiring firms seek new knowledge which are more available in distant locations. In another study, Malhotra and Gaur (2014) tied optimal governance structure to their theorization to explain that greater distance between the acquirer and target firm is positively related with equity ownership in related acquisitions. This is likely to occur due to the ability to assess the true value of the firm as the acquirer considers the cost and benefit trade-off, but this finding does not apply when considering unrelated acquisitions. In addition to the findings, Malhotra and Gaur (2014) found that greater distance results in more equity ownership by public firms than private firms. The findings on cultural and geographic distances vary depending on the purpose for which the MNE is seeking equity participation in the target firm.

Some findings indicated that risks and uncertainty associated with institutional distance tend to be avoided by acquirers, and to reduce risks and uncertainty, acquirers will seek lower equity participation. By using transaction cost economics and institutional theory perspectives, Chikhouni et al. (2017) discussed that psychic distance influences equity ownership. In this research, Chikhouni et al. (2017) found that the direction of acquirer-to-target firm country matters, where the direction of EM MNE acquirers to a developed country target firm translates to increased equity ownership, but the opposite effect is the case for target firms located in emerging countries due to external uncertainty in the target firm. Also, Chari and Chang (2009) used a variety of theoretical lens to understand the determinants of MNE choice of equity ownership and found that MNEs will likely seek equity ownership when the country risks are lower so as to reduce risks and uncertainties associated with CBAs. Lastly, corruption in the host country influences the choice of equity ownership in a U-shaped relationship because acquirers seek to increase benefits perceived in the target firm, but will tend to reduce costs associated with international expansion (Di Guardo et al., 2016).

Another variant of research sought to understand how EM MNEs equity participation decision differs from developed market MNEs. For example, Liou et al.'s (2016) research used an institution-based view to argue that greater informal institutional distance, which represents legitimacy threats for EM MNE acquirers, negatively influences EM MNEs participation decision, while greater formal institutional distance, which represents the dominant ownership control of the target firm, positively influences EM MNEs' participation decision. Although, findings from the EM MNE literature aligned with extant findings on DM MNE in terms of informal institutional distance (i.e., negative relationship with equity participation) (e.g. Chari & Chang, 2009), the findings differed when formal institutional distance is considered. That is, EM MNEs seek greater equity participation with greater formal institutional distance due to their need to establish dominant ownership in target firms and acquire strategic assets and capabilities (Liou et al., 2016). By using institution-based view as the theoretical framework, Pinto et al. (2017) indicated that Brazilian MNEs will tend to choose full equity over partial equity in institutionally distant target firms, but with government ownership rights in the acquiring firms, this relationship does is weakened. By comparing EM MNEs with more developed MNEs, Malhotra et al. (2016) used transaction cost economics to theorize that Latin American MNEs are more likely to take on greater equity with greater cultural and institutional distance than U.S. acquirers. This is because Latin American MNEs generally seek more control of the target firm. Additionally, Gaffney et al. (2016)

referenced internalization theory to theorize that, compared to BRIC MNEs, U.K. MNEs seek lower equity participation when there is greater economic distance, but both types of MNEs prefer greater equity participation with greater knowledge distance because of the need to acquire new knowledge. These findings buttress the notion that EM MNE acquirers are more willing to delve into more institutionally distant target locations overall than developed market MNEs in order to benefit from what the target firms have to offer.

In summary, findings in the equity participation literature suggest that developed market MNEs generally seek lower risks and uncertainties in the form of lower equity participation. Contrary to these findings, EM MNEs are more likely to embrace risks and uncertainties by seeking greater equity participation when institutional distance is greater. This is because EM MNEs hope to take advantage of opportunities available to them, including acquiring strategic assets and capabilities, and operating in countries with stronger formal institutions. Despite differences in the strategies undertaken when formal institutional distance is considered, both EM MNEs and developed market MNEs choose to lower risks and uncertainties when informal institutional distance is considered.

In the CBA equity participation literature, antecedents to equity participation largely focused on cross-country distances. As previously indicated, there is an assumption that these cross-country distances are the starting point to understand equity participation decisions; that is, researchers did not take into consideration antecedents to cross-national distances to better understand why cross-national distances impact equity participation decisions. Studies and findings in this area could be further developed by considering a more comprehensive understanding of cross-country distances in order to explain equity participation decisions.

Conclusion

Chapter 2 provides a comprehensive overview of the literature surrounding postcolonial theory and institutional theory, institutional distance, EM MNE CBA strategies, and equity participation. This chapter also provides insight that the literature streams are disjointed and provide narrow and limited explanations, especially in the role that each of them play to explain the relationship between institutional distance and equity participation. In terms of theoretical development, this chapter highlights a lack of integration between postcolonial theory and institutional theory, even though colonization events influenced certain institutions and provided explanations to why certain institutions are practiced (Loomba, 2015). Also, this chapter highlights that scholars failed to consider sources of legitimacy, other than via familiarity with the host country, to explain equity participation decisions. In terms of institutional distance, a historical lens is yet to be applied to explain institutions and institutional distance. There is a need for more discussion on institutions and institutional distance as mediators and consequences rather than antecedents. Researchers need to consider potential negative implications of similar informal institutional distance for CBA outcome, not just the positive implications of similar informal institutional distance. Finally, as regards to EM MNE internationalization strategies, researchers should not end the discussion on EM MNE strategies as strategies that involve seeking internationalization in developed countries to gain strategic assets and capabilities. Rather, the conversation should continue by seeking to understand why EM MNEs choose certain developed countries over others. In the next chapter, the discourse on informal institutional distance, legitimacy and equity participation is developed as well as how colonial ties determine legitimacy in a target firm country. Following, propositions are developed.

CHAPTER III: INSTITUTIONAL DISTANCE AND EQUITY PARTICIPATION

Introduction

This chapter delves into the theoretical framework for this research as well as arguments for the propositions. Legitimacy is explained using two different perspectives: (a) as the acceptance of an acquiring firm by the target firm because the acquiring firm from a colonized country emulates the norms and values of the target firm from its colonizer country (Suchman, 1995), and (b) as the deference of authority by the acquiring firm from a colonized country seeking equity participation in a target firm from its colonizer country (Tost, 2011).

This chapter begins with an overview of the studies explaining the interrelation among informal institutional distance, legitimacy, and equity participation. Legitimacy is argued as a means through which informal institutional distance negatively influences equity participation. That is, greater informal institutional distance positions the acquiring firm to face legitimacy threats in the target firm country. For this reason, the acquiring firm is expected to seek lower equity in the target firm as a means to allow those within the target firm represent the target firm and manage interactions with the internal and external environment. The next section expands the extant understanding of legitimacy arguments by introducing postcolonial theory. In this section, colonization is explained as a historical event that has made actions (i.e., norms and values) and entities (i.e., colonizers) deemed as legitimate. The extant studies focused only on legitimacy attainment that stems from actions (e.g., Liou et al., 2016), but this research not only introduces another approach with which to understand legitimacy attainment (i.e., through entities superiority). This study also uses colonization to explain one approach of how actions and entities became legitimate (i.e., through colonization).

Following this explanation, several propositions are developed based on this framework, including the direct competing relationships between colonial ties and equity participation, the mediating influence of informal institutional distance in the positive relationship between colonial tie and equity participation, and the moderating role of length of colonization on the relationship between colonial tie and informal institutional distance.

Informal Institutional Distance and CBAs

Greater informal institutional distance is disadvantageous to acquirers seeking to expand into target firm countries due to the acquirer's unfamiliarity with the host country and the increased likelihood for unfavorable CBA outcomes (Miller & Parkhe, 2002). For this reason, the acquirer often seek CBAs in target firm countries with similar informal institutional backgrounds. Several advantages materialize when the acquiring and target firm countries possess similar norms and values. First, MNEs' competitive advantage is realized due to the ability to easily transfer and combine capabilities across border (Gupta & Govindarajan, 2000). Given that M&As bring together employees from different countries embodying different cultures (Bowen & Ostroff, 2004), greater cultural differences among employees may hinder the ability for MNEs to transfer and combine capabilities, and integrate both firms (Björkman et al., 2007). This is because several cross-country practices differ in how business is conducted. This includes how business partners interact, how people perceive the business environment, how organizational resources are allocated, policies and practices pertaining to human resources, and the characteristics of innovations and technologies in each country (Björkman et al., 2007). Acquisition failure can be traced to issues that arise in the integration phase. During the integration phase, clashes between values and practices of both firms, and the attributions and stereotypes stemming from limited information about those from the other firm may hinder the ability for both firms to collaborate, thus leading to failed opportunities for learning (Cartwright & Cooper, 1996; Vaara, 2003). Therefore, acquirers often consider the informal institutions of both the acquiring and target firm countries in CBAs.

Second, M&As are a means to create new knowledge and increase the knowledge base of the acquiring firm (Björkman et al., 2007). Successful knowledge (tacit and socially complex) transfer is an important source of competitive advantage that contributes to M&A performance (Björkman et al., 2007). However, knowledge transfer is challenging because sociocultural barriers exist to hinder knowledge transfer (Ranft & Lord, 2002). From a sociocultural perspective, the development of trust among employees is important as merging firms combine knowledge (Stahl et al., 2013). Trust involves the willingness to be vulnerable to employees of the other firm, and to reduce potential resistance among employees (Birkinshaw et al., 2000). In addition, trust increases strong ties among employees (Frantz, 2012).

Third, the acquirer is expected to have information about the external environment and to abide by the norms and values of the local environment because such information influences how well the MNE survives in the local environment (Liou et al., 2016). Knowledge about the informal institutions of the local environment informs the MNE about what consumers prefer, how to interact with buyers and suppliers, and how to abide by the traditions of the local environment. Compliance with the local environment's norms and values results in legitimacy attainment among the locals, and legitimacy attainment impacts performance in subunits (Miller & Parkhe, 2002), reduces exit rates of MNEs (Hennart et al., 2002), and reduces lawsuits in the local environment (Mezias, 2002).

Legitimacy and CBAs

Attaining legitimacy for the MNE acquirer is important for several reasons. First, the MNE avoids potential unfavorable treatment from the host country government, buyers and suppliers because the locals accept them, the MNE is viewed as abiding by the values and norms of the target firm location, and are the MNE can be trusted by those in the local environment (Sitkin & Roth, 1993). The absence of unfavorable treatment in the host country environment will allow MNE to participate in the same activities as the local firms, including in the development of business relationships with buyers and suppliers, and in the interaction and communication with the local environment (Zaheer, 1995). Second, attaining legitimacy in the host country allows the MNEs to successfully transfer and combine internal institutional arrangements, such as employment practices (Oliver & Wilkinson, 1988), quality management processes (Kostova & Roth, 2002), and human resource management practices (Gooderham et al., 1999). When the target firm accepts the MNE, both firms can coordinate internal activities together and communicate effectively (Kogut & Singh, 1988), and conflicts are reduced (Sitkin & Roth, 1993), thus promoting an atmosphere for smooth communication and interactions.

One of the difficulties of expanding into a host country is the lack of familiarity with the local environment and the inability to gain access to information pertaining to the local environment (Eden & Miller, 2004). When legitimacy is attained in the local environment, the MNE is able to gain more information about the local environment, including information on how to purchase inputs and market products in the local environment (Estrin et al., 2007). Finally, the MNE acquirer's legitimacy in the local environment is important for numerous post-acquisition outcomes. Lack of legitimacy in the target firm local environment can result in poor performance in subunits (Miller & Parkhe, 2002), high exit rates (Hennart et al., 2002), and increased lawsuits (Mezias, 2002). These effects are as a result of competitive disadvantage of the MNE entering a foreign location, that is, MNEs are unknown by the locals and seek to compete with local firms who have pre-established existence and have attained legitimacy in the local environment.

The focus of legitimacy in the CBA literature is largely based on familiarity with the host country, that is, based on Suchman's (1995) definition of legitimacy. Despite the advancement in the field to understand the role of legitimacy in CBA outcomes, the literature stream is biased in its consideration of legitimacy definition and its sources. Although, multiple definitions of legitimacy exist, as well as a variety of sources of legitimacy (Deephouse et al., 2017; Tost, 2011), there is no examination of legitimacy from perspectives other than legitimacy derived from familiarity of the host country. Therefore, there is need to revisit the understanding of legitimacy in the CBA literature to provide a more comprehensive explanation of how legitimacy impacts CBA outcomes.

Legitimacy and Equity Participation

Acquirers often choose lower equity stake when legitimacy threats are likely. There are several reasons why lower equity stake for the MNE may reduce legitimacy threats. First, in terms of communication with stakeholders in the target firm environment, the acquiring firm with lower equity stake interacts less with stakeholders as compared to the target firm possessing greater ownership stake (Sitkin & Stickel, 1996). By deferring to the target firm to engage more with the local environment, the acquiring firm is likely to avoid potential misunderstandings during interactions with the local environment (Zaheer, 1995). Deference here refers to the MNE acquirer's submission of power to the target firm to have greater authority needed to make strategic decisions concerning the target firm, to maintain the target firm's relationship with the internal and external environments, and to represent the target firm in external affairs. The acquiring firm could also avoid facing potential unwillingness by the local environment to work with or communicate with the acquiring firm due to their unfamiliarity of the acquiring firm (Kostova et al., 2008). By avoiding potential misunderstandings in communication with the local environment, the acquiring firm lowers potential legitimacy threats from the local environment (Kostova & Zaheer, 1999; Zaheer, 1995).

Second, when the target firm owns greater equity, the target firm is able to better discover future opportunities and risks in the local environment. Unlike the acquiring firm, the target firm has a better scope of opportunities and risks in the environment due to its existence, operation, and familiarity with the local environment. By using prior information about opportunities and risks in the local environment as well as already existing relations within the local environment to collect new information, the target firm is less likely to miss critical information that is needed to develop the firm strategies (Zaheer, 1995).

Third, greater equity stake for the target firm also means more opportunity for the MNE to benefit from the target firm's already established legitimacy in the local context and reduce the time and effort to gain legitimacy (Lu & Xu, 2006). The MNE is able to learn about the local environment through the target firm and without going through a series of trials and errors of whether or not a strategy works (Kostova et al., 2008; Kostova & Zaheer, 1999). The target firm has pre-established knowledge and reputation in the values and norms of the local environment, including the likes, dislikes, preferences and customs of firm operation in the target firm environment and partnering with the target firm will reduce potential risks of the unknown (Kostova et al., 2008).

Fourth, by deferring to the target firm to maintain contact with the local environment, the MNE is able to avoid stereotypes and attacks from the local environment (Yiu & Makino, 2002). MNEs face competitive disadvantage as compared to local firms (Eden & Miller, 2004) because the host country lacks information about the MNE (Kostova & Zaheer, 1999). This lack of information about the MNE can result in the MNE's vulnerability to attacks and stereotypes by the locals, thus negatively affecting the outcomes of the CBA. So, allowing the target firm to maintain primary contact with the local environment buffers any potential negative outcome associated with the MNE's interaction with the local environment.

Fifth, as the target firm engages more with the local environment, the target firms are able to bring in resources that local firms typically gain access to within the environment, including economic and intangible resources (Yiu & Makino, 2002). The MNE already encounters unfavorable treatment from the host country government, and buyers and suppliers because MNE is viewed as not potentially abiding by the values and norms of the target firm location, and the MNE is not trusted by the locals (Sitkin & Roth, 1993). As a result, MNE is already at a disadvantage in terms of benefiting from resources that are available by the host country (Zaheer, 1995). The MNE is likely to face hurdles when seeking resources such as land and capital in the host country. Thus, by deferring to the target firm to maintain primary contact with the locals, the MNE is able to gain access to these resources without difficulties.

Finally, the target firm's main contact with the local environment can allow MNEs to build social capital with the local environment through the MNE's mimicry of the target firm's approach to interactions and maintenance of relationships with the local environment (Yiu & Makino, 2002). The MNE is able to carefully study the already established relationship developed between the target firm and the local environment and can use this knowledge to build social capital with the local environment. By learning from the target firm, the MNE is able to strategically leverage relationships developed with locals to gain access to knowledge and even anticipate opportunities and risks in the environment through (Kostova & Zaheer, 1999; Zaheer, 1995).

Due to the various benefits of legitimacy for CBAs, future studies should seek to understand the various sources of legitimacy. Doing so will inform practitioners on the various means to attain legitimacy in the target firm. Furthermore, the field on the interrelation between legitimacy and equity participation will be further developed and will provide a more comprehensive understand of where firms must seek legitimacy.

Informal Institutional Distance, Legitimacy, and Equity Participation

In international business research, the concept of the liability of foreignness is explained as "the costs of doing business abroad that result in competitive disadvantage for an MNE subunit" (Zaheer, 1995, p. 342). Liability of foreignness is a bedrock of theories of multinational enterprises (MNEs). It explains that a major difference between MNEs and domestic firms, which is that MNEs encounter costs associated with doing business abroad as opposed to domestic firms that operate within their home countries only (Hymer, 1976; Zaheer, 1995). Different arguments were used to explain the liability of foreignness, including in terms of costs related to the coordination of activities in geographically distant locations, unfamiliarity with the local environment, and costs imposed by the home country governments on foreign firms (Zaheer, 1995).

Focusing on MNE's unfamiliarity with the host country environment, scholars in the equity participation literature used institutional theory to explain that the liability of foreignness that manifests in the form of greater institutional differences between the MNE home and the host country (e.g., Eden & Miller, 2004). For instance, greater informal institutional differences between the acquiring and target firm countries indicates that the MNE is not familiar with the host country's institutional practices, and for this reason, the MNE is likely to face legitimacy threats in the local environment (Kostova et al., 2008).

Legitimacy, in relation to institutional distance, focuses on the perception that practices of an entity are desired and acceptable over another set of practices (Suchman, 1995), and scholars discuss that legitimacy materializes through isomorphism to the practices of the party in charge of legitimation (e.g., Kostova et al., 2008). In the context of CBAs, the MNE acquirer attains legitimacy when the acquiring firm abides by the host country's norms and values, and this is often possible when both firm countries have similar norms and values (Liou et al., 2016). The pressure to adapt to the host country's norms and values becomes greater when there is greater informal institutional difference between the MNE's home country and the host country (Estrin et al., 2007). Social psychology literature provides further explanation on the mechanism of legitimacy. According to the social psychological literature (Darr & Kurtzberg, 2000), people are attracted to those who embody similar attitudes and values as them and are likely to work in accordance with similar others. The interpersonal trust development literature also indicates that those with shared norms, ideologies, and values are likely to develop trust among each other and lower the likelihood of potential conflicts as while working together (Sitkin & Roth, 1993). On the other hand, members of a group not possessing similar norms, ideologies, and values will tend to develop suspicion toward the 'out-group', distrust the 'out-group', and the out-group is perceived as incompetent and ill-informed (Sitkin & Stickel, 1996). Therefore, in the CBA context, acquiring and target firm countries are at an advantage when they possess similar informal institutions because this results in lower potential for conflicts, distrust, or negative stereotypes that the target firm and its local environment may have about the acquiring firm.

Legitimacy threat is risky for CBAs and results in unfavorable outcomes (Beugelsdijk et al., 2018). For instance, legitimacy threats are indicative that the MNE is not acceptable or desired by the target firm or its local environment, and that internal and external stakeholders are not willing to work with the MNE to achieve favorable CBA outcomes (Liou et al., 2016). The MNE is likely to encounter unfavorable or discriminatory treatment by the host country government, buyers, and suppliers (Sitkin & Roth, 1993). Also, the local environment is less likely to cooperate with the MNE, develop its relationship with the MNE, or supply the MNE with information that may be useful to develop strategies and increase performance (Miller & Parkhe, 2002). For these reasons, the MNE acquirer will opt for lower equity participation when there is greater informal institutional distance between the acquiring and target firm countries.

Colonial Ties, Legitimacy, and EM MNE Equity Participation

Postcolonial theory suggests that colonization affected colonized countries in many different ways (Ashcroft et al., 2013), including in the influence of colonizers' centralized nature of political institutions (Angeles & Elizalde, 2017), and the introduction of infrastructure, healthcare, and the European educational systems (Ball, 1983). Also, colonization influenced the transformation of colonized countries' norms and values into colonizers' norms and values (Bhabha, 1994 and the introduction of new languages and belief systems in colonized countries (Acemoglu et al., 2001).

Upon the introduction of colonizers' norms and values in colonized countries, some pre-colonial norms and values were abandoned in some regions while colonizers' norms and values became the newly practiced norms and values in colonized countries (Elizalde, 2016). The extent to which colonized countries adopted the norms and values of colonizers and abandoned their pre-colonial norms and values varied from the complete adoption to partial adoption (Bhabha, 1994). Bhabha (1994) terms the abandonment of colonized countries' norms and values for the adoption of colonizers' norms and values as *mimicry*, while the act of retaining one's own norms and values while still practicing colonizers' norms and values is *hybridity*.

Due to the seemingly superior status of colonizers over the colonized, colonizers influenced norms and values that were promoted and openly adhered to (i.e., colonizers' norms and values), and what norms and values were suppressed (i.e., norms and values of the colonized) (Said, 1978). Colonizers used aggressive forces to coerce the colonized into abandoning their own pre-colonial norms and values and adopting colonizers' norms and values (Englebert, 2000). Failure to adhere to colonizers' norms and values resulted in the punishment of the colonized by colonizers via approaches such as physical punishment and other brutal punishments (Pauls, 2020). Through establishing control over the colonized, colonizers positioned themselves as being superior over the colonized, while the colonized became known as the inferior set of people.

The emulation of colonizers' norms and values by colonized countries continued even in modern times, and these norms and values have now become a part of colonized countries (Ashcroft et al., 2013). Such emulation played a role in explaining how MNEs from colonized countries engage in international business and strategy (Frenkel, 2008; Rangan & Drummond, 2004). Although, emulation of colonizers' norms and values, as well as the superiority-inferiority dynamic of colonizers and the colonized, is yet to be discussed in the CBA literature, these factors may influence CBA decisions and outcomes. This is especially when MNE acquirers from colonized countries consider how their legitimacy (or lack thereof) in the target firm (colonizer) country can affect CBA outcomes.

EM MNEs from colonized countries having more authority (i.e., greater equity) over such target firm may result in increased legitimacy threats for the EM MNE via increased stereotypes, attacks, and misjudgments by the target firm and host country (Yiu

& Makino, 2002). In the process of gathering information about opportunities and threats in the local environment so as to anticipate future needs of the locals and develop strategies (Zaheer, 1995), the locals may be hesitant to make such information available to the EM MNE. This is likely because of its country's superior status over the EM MNE acquirer's country. More so, gathering knowledge such as the likes and dislikes of the locals will be a strenuous task for the EM MNE due to lack of cooperation from the locals (Kostova et al., 2008; Kostova & Zaheer, 1999; Lu & Xu, 2006). Attempts by EM MNEs to build social capital with the locals may prove futile because EM MNEs are not only faced with legitimacy threats from being 'foreign' to the target firm country (Yiu & Makino, 2002). However, EM MNEs are faced with legitimacy threats that stem from their country's seemingly inferior status.

Internally, greater equity participation by EM MNEs from colonized countries will likely result in increased legitimacy threats faced by the EM MNE as well. This is because greater equity participation by EM MNEs may create conflicting roles and responsibilities between the two firms. The target firm, with a preconceived mindset to rule over those from colonized countries, may desire to oversee all activities even when the EM MNE owns greater equity. For instance, the target firm may desire to direct the process of transfer and combination of capabilities (Gupta & Govindarajan, 2000). The target firm may also want to direct how organizational resources are allocated, how policies and procedures are followed (Björkman et al., 2007), and how to coordinate internal activities and communication procedures (Kogut & Singh, 1988). Clashes in these responsibilities may hinder the ability for both firms to learn from each other (Cartwright & Cooper, 1993) and create synergy (Stahl et al., 2013). EM MNEs in particular, as firms coming from emerging markets which are perceived as 'inferior' and heavily dependent on their colonizers (Frenkel, 2008; Meouloud et al., 2019), are more likely to face legitimacy threats while engaging in CBAs in colonizer countries. EM MNEs will not only face legitimacy threats that stem from their seemingly inferior status, but will likely to face legitimacy threats from not suppressing their pre-colonial norms and values or not expressing their colonizers' norms and values in the target firm countries. For these reasons, EM MNEs may choose to limit their presence in the host country via lower equity.

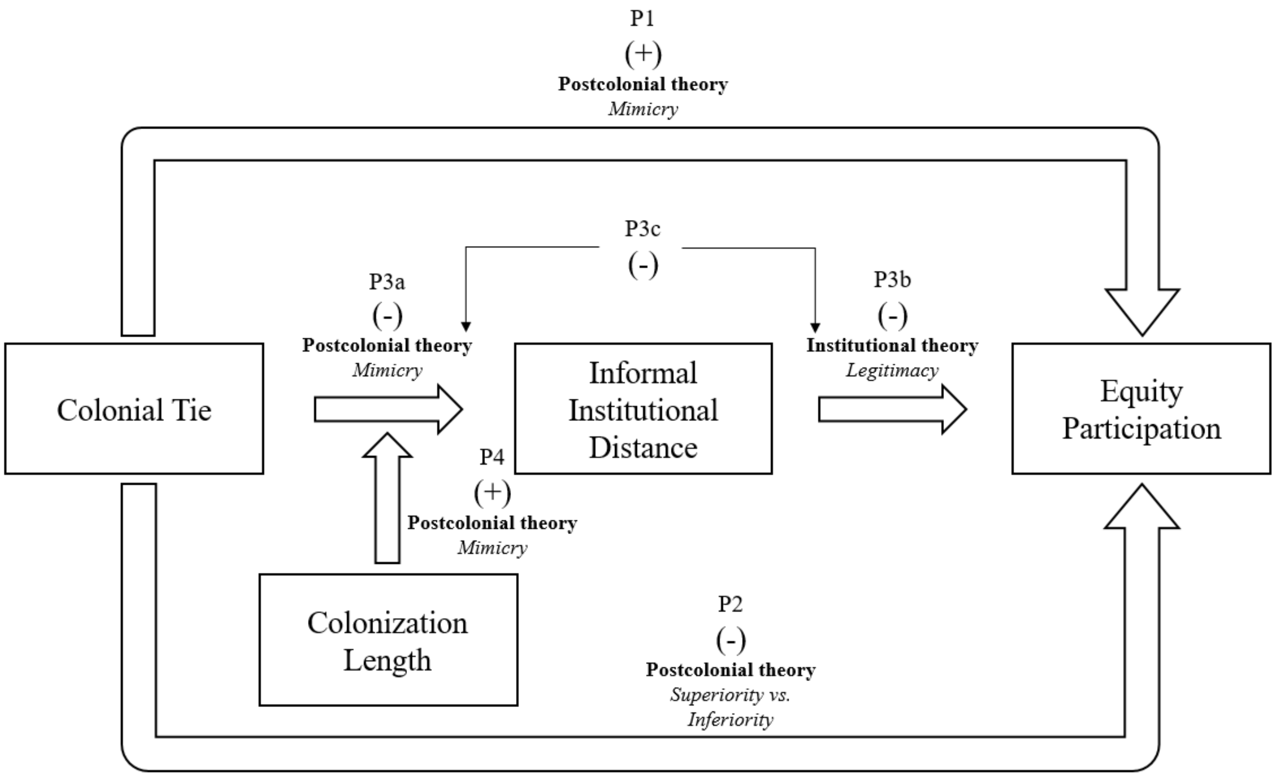
However, by being isomorphic with the target firm's norms and values (Suchman, 1995), EM MNEs may attain legitimacy in the host country, and the target firms are more likely to work with EM MNEs to transfer and combine capabilities as well as increase their knowledge base (Björkman et al., 2007; Gupta & Govindarajan, 2000). Furthermore, EM MNEs are able to gain access to information pertaining to the local environment (Björkman et al., 2007; Eden & Miller, 2004). Similarities in the norms and values could motivate EM MNEs to increase equity participation in the target firm, and such potential benefits may counteract the fear of legitimacy threats associated with superiority-inferiority dynamic between their home countries and target firm (colonizer) countries.

In determining equity participation in their colonizer countries, legitimacy then becomes an especially important consideration for EM MNEs due to negative implications for CBAs, such as poor performance in subunits (Miller & Parkhe, 2002), high exit rates (Hennart et al., 2002), and increased lawsuits (Mezias, 2002). Therefore, EM MNEs will prefer the equity participation strategy that lowers legitimacy threats from colonizer countries (Eden & Miller, 2004). This decision depends on whether the EM MNEs examine legitimacy from the perspective of mimicry of their colonizers' norms and values, or from the point of view of superior-inferior status of colonizer and their colonized. EM MNEs may then decide to increase equity participation if the locals (i.e., colonizer country locals) perceive them as being isomorphic with their colonizers' norms and values as a means to establish their presence in the host country and acquire more assets and capabilities. Otherwise, EM MNEs may decrease equity participation due to their seemingly inferior status of being a firm from a colonized country. In the next section, the propositions are developed the proposition model is presented. The proposition model provides information about the relationships among colonial tie, informal institutional distance, colonization length, and equity participation. In addition, the proposition model lists the theories and mechanisms of each proposed relationship.

Propositions

Figure 1

Conceptual Model for Colonial Ties and EM MNE Equity Participation Decision



The Positive Effect of Colonial Ties on Equity Participation

Despite colonization occurring decades and even hundreds of years ago, the effects of colonization lasted even until today. Colonized countries possess similar country characteristics with their colonizers (Said, 1978; Spivak, 1988). This is because colonizers promoted and enforced the adoption of their norms and values, educational systems, infrastructures, and healthcare systems while encouraging the abandonment of colonized countries' pre-colonization systems (Ashcroft et al., 2013; Ball, 1983; Bhabha, 1994; Loomba, 2015). The promotion of colonizers' languages also occurred in colonized countries as a means to establish dominance over colonized countries (Spivak, 1988). For instance, in the attempt to promote colonizers' language(s), colonizers discouraged the use of colonized countries' languages during colonization, while endorsing their own language(s) (Spivak, 1988). The colonized were therefore expected to emulate their colonizers through mimicry (Bhabha, 1994).

The emulation of colonizers' institutional practices by EM MNE acquirers from colonized countries is likely to play a critical role in CBAs by mitigating legitimacy threats that EM MNEs face in the target firm country. This is because mimicry of colonizers' institutions will foster smoother and efficient communication processes, synergy process and smooth integration of both firms (Björkman et al., 2007; Gupta & Govindarajan, 2000; Sitkin & Roth, 1993) as well as result in increased communication with the local environment (Björkman et al., 2007). Such mimicry of colonizers' norms and values may reduce the likelihood of conflicts and difficulty in understanding the target firm and its environment (Miller et al., 2008). This is prevalent with EM MNEs seeking international expansion in their colonizer country, because these EM MNEs are able to take advantage of the acceptance by their colonizer country to build assets and capabilities (Chowdhury & Maung, 2018). An example of this situation is an Indian pharmaceutical company named Elder International FZCO acquiring 100% of Nutra Health PLC, a firm in its colonizer country, the United Kingdom, in 2010 (PBR Staff Writer, 2010). According to the Executive Chairman of Elder International FZCO, the intention for Elder International FZCO was to enter the European markets and reduce costs through the creation of backward integration of Nutra Health products that will be sold to India. Elder International FZCO benefits from market expansion opportunities and the use of backward integration of products manufactured by Nutra Health, while Nutra Health benefits from raw materials and active pharmaceutical ingredients from Elder International FZCO. For this reason, the EM MNE may anticipate its legitimation and acceptance in the target firm country and may increase equity participation.

Proposition 1: Colonial tie is positively related to equity participation of EM MNE acquirers due to acquirers' mimicry of their colonizers' norms and values.

The Negative Effect of Colonial Ties on Equity Participation

Colonized countries are viewed as inferior to the rest of the world (Acemoglu et al., 2001; Ball, 1983; Loomba, 2015; Said, 1978). Due to colonizers' use of aggression over colonized countries, colonizers were able to establish dominance over colonized countries and, as a result, became superior over colonized countries. In order to further establish their superiority over colonized countries, colonizers condemned the norms and values of colonized countries, describing colonized countries' norms and values as 'primordial' and 'barbaric'. Colonized also legitimized their own norms and values to colonized countries (Said, 1978). Furthermore, their establishment of superiority over colonized countries meant that colonized countries were not considered as legitimate because their ways of life were already deemed as unacceptable.

EM MNEs from colonized countries may consider the implications of authority positions of their colonizers in CBA decisions while seeking equity participation in target firms located in their colonizer countries. This is because EM MNE acquirers may anticipate that a target firm's employees and the local environment may be unwilling to defer authority associated with equity participation to the acquiring firm due to pre-existing knowledge that the acquirer's country was once colonized by the target firm's country (Liou & Rao-Nicholson, 2017). The target firm, as a firm from a colonizer country, may assume superiority over the EM MNE acquirer, a firm from a colonized country. In situations where the acquirer may have an upper hand at negotiations (assuming that the acquirer has greater equity stake in the target firm), the acquiring firm may be hesitant to assert its powers over the target firm due to the superiority of target firm countries over their own countries. Asserting their authority over target firms may create problems associated with conflicting roles between the two firms, thus increasing legitimacy threats for the EM MNE acquirer. An example of resistance by target firms from colonizer countries against acquiring firms from colonized countries may be the case of a Mexican firm, Inmobiliaria Carso SA de CV, acquiring 25% of equity from a Spanish firm, Realia Business SA in 2015 (Reuters Staff, 2015). In 2017, Inmobiliaria Carso SA de CV tried to acquire the remaining 75% of equity from Realia Business SA, and the offer was rejected despite both firms having their parent locations in Mexico. According to Realia Business SA, the offer was rejected because "the bid was unreasonable from a financial standpoint" (MarketScreener, 2017). There was no further information explaining why Realia Business SA rejected this offer from Inmobiliaria Carso SA de CV.

Potential legitimacy threats coming from the target firm and its local environment may hinder successful integration of both firms and synergy of both firms (Estrin et al., 2007; Stahl et al., 2013). In the external environment, the EM MNE is also likely to suffer from legitimacy threats arising from the local environment. The EM MNE may have difficulties establishing relationships with the local environment to enable them anticipate opportunities and risks, gain knowledge about the local environment, and build social capital with businesses, suppliers, and even customers (Eden & Miller, 2004; Estrin et al., 2007; Sitkin & Roth, 1993). For these reasons, the EM MNE is likely to seek lower equity participation in target firms located in colonizer countries as a means to defer rights of ownership and allow the target firm to be the primary contact for the local environment. Doing so will also allow the EM MNE to benefit from the already established legitimacy of the target firm in the local environment.

Proposition 2: Colonial tie is negatively related to equity participation of EM MNE acquirers due to acquirers' perceived obligation to defer authority to target firms (being from colonizer countries).

The Mediating Effect of Informal Institutional Distance

The exposure to colonizers' norms and values in colonized countries resulted in a complex composition of norms and values, comprising of both colonized countries' pre-colonial norms and values and colonizers' norms and values (Ashcroft et al., 2013; Ball, 1983; Bhabha, 1994; Englebert, 2000). Nevertheless, the norms and values of colonizers and colonized countries have become less unique and more alike (Glaister, et al., 2020;

Liou & Rao-Nicholson, 2017), thus, lowering differences that appear in the informal institutions of colonizers and colonized countries. Several examples include the spoken language of English by countries colonized by the British (e.g., India and Malaysia), and Spanish language spoken by countries colonized by the Spanish (e.g., Mexico).

Similarities in colonizer and colonized countries' informal institutions are particularly important for EM MNE CBA strategies due to the implications of legitimacy attainment in the target firm country (Zaheer, 1995) and positive outcomes of CBAs (Miller & Parkhe, 2002). For instance, similarities in the norms and values of the acquiring and target firm countries increase the likelihood of smooth interactions with the target firm (Gupta & Govindarajan, 2000; Sitkin & Roth, 1993). This is because similarities in the norms and values result in lower complexities and difficulties that materialize during the combination of knowledge and capabilities, thus increasing the likelihood for synergy to occur. Also, familiarity with the target firm country's norms and values allows for the acceptance of the EM MNE acquirer by the target firm and its local environment (Liou et al., 2016). Familiarity also provides EM MNEs with the opportunity to build and develop their relationship with the local environment (Björkman et al., 2007). Taking a look at India, for example, Indian acquirers have taken advantage of the opportunity to internationalize and build strategic assets and capabilities via CBAs with their colonizer country, the United Kingdom. Between the years of 1997 and 2018, Indian acquirers acquired 287 target firms in the United Kingdom as opposed to 32 firms in Spain (source: SDC Platinum Database).

On the other hand, greater differences in informal institutions between the colonizer and those that are colonized will likely result in increased legitimacy threats for the EM MNE acquirer. When there are differences in the norms and values of the acquiring and target firm countries, acquirers often face communication problems that hinder the ability to establish trust, cooperation, and shared understanding (Ellis et al., 2018). Communication difficulties can negatively affect pre-deal perceptions of the target firms in terms of their abilities to cooperate with acquirers (Barkema & Vermeulen, 1998), thus increasing legitimacy threats that the acquirer is likely to face in the target firm country.

Also, the local environment is less likely to cooperate with the acquirers through the provision of local knowledge and in terms of relationship development with other businesses and suppliers in the local environment (Björkman et al., 2007; Liou et al., 2016). Therefore, due to legitimacy threats that may result from greater informal institutional distance, the EM MNE is likely to lower equity participation in the target firm, and instead, take advantage of the target firm's already established legitimacy in the local environment. By lowering equity participation, the acquirer reduces the time and effort to build legitimacy in the target firm country without having to go through a series of trials and errors (Kostova et al., 2008; Kostova & Zaheer, 1999; Lu & Xu, 2006), and the acquirer reduces the potential risks of tarnishing its own reputation with the local environment (Kostova et al., 2008).

Proposition 3a: Colonial tie reduces informal institutional distance.

Proposition 3b: Informal institutional distance is negatively related to equity participation by EM MNE acquirers.

Proposition 3c: The positive relationship between colonial tie and equity participation is mediated by informal institutional distance due to legitimacy that is derived from mimicry of colonizers' values and norms.

The Moderating Influence of Colonization Length

Colonizers had different purposes for colonizing different countries, and their purposes influenced the duration of time spent occupying each of these colonized countries (Acemoglu et al., 2001; Elizalde, 2016; Price, 2003). For instance, in Latin American regions, colonizers aimed to settle more permanently and make these regions their permanent homes. This provided them with more opportunity (i.e., more time) to impart their norms and values on colonized countries so that the pre-colonial norms and values of the colonized were either abandoned or practiced less often while colonizers' norms and values were practiced more often (Angeles & Elizalde, 2017). Colonizers strongly enforced their norms and values through aggression, and also bred with the natives (Ashcroft et al., 2013), further expanding their sphere of influence over the natives. In these countries, colonization experiences involved much deeper immersion of colonizers' norms and values on the colonized.

In other regions, the colonized experienced much less immersion of colonizers' norms and values. Colonizers were focused on setting up extractive institutions that allowed them to transfer natural resources from colonies into colonizers' countries without having to settle more permanently in these colonized countries (Acemoglu et al., 2001). In addition, some colonized countries (e.g., most African countries) were not conducive for settlement because colonizers experienced high mortality rates due to diseases within these colonized countries. The shorter stay of colonizers allowed colonized countries to maintain and practice a vast majority of their pre-colonial norms and values, lowering the chances for them to abandon their own norms and values and adopt colonizers' norms and values (Mizuno et al., 2017).

Thus, longer presence of colonizers in the colonized countries is likely to intensify the extent to which colonized countries emulate the norms and values of colonizers, and increasing the similarity between colonizer countries and colonized countries' informal institutions. For EM MNEs from colonized countries that engage in CBAs in target firms located in their colonizer countries, the emulation of colonizers' norms and values will, therefore, be more evident if their home countries experienced a longer period of colonization by their colonizers.

Proposition 4: Length of colonization in the EM acquirer country moderates the negative effect of colonial tie on informal institutional distance such that longer period of colonization increases colonized countries' mimicry of colonizers norms and values.

Conclusion

This chapter theorized that the role of colonial ties may result in lower or higher legitimacy threats of EM MNEs from colonized countries engaging in CBAs in target firm colonizer countries. In one argument, colonial ties are explained as an effect of colonization that can lower legitimacy threats due to colonized countries' emulation of colonizers' norms and values, and lower legitimacy threats will influence the decision to increase equity participation in the target firm. On the other hand, colonial ties are an effect of colonization that can potentially increase legitimacy threats faced by EM MNEs due to perception that target firm colonizer countries are superior to EM MNEs from colonized countries. As a result, EM MNEs are likely to lower equity participation in the target firm. Furthermore, this chapter explains that the length of colonization increases mimicry of colonizers' norms and values by colonized countries, and serves as a moderator to the relationship between colonial ties and informal institutional distance. In the next chapter, the research is summarized; the contributions, implications of the study, and limitations and future research are discussed.

CHAPTER IV: DISCUSSION

Introduction

This dissertation introduces competing theoretical perspectives on the relationship between colonial ties and equity participation in EM MNE CBAs. Using postcolonial theory, colonial tie is discussed as negatively influencing equity participation due to the superior-inferior dynamic between the target firm and acquiring firm countries. On the other hand, institutional theory is used to theorize that colonial tie positively influences equity participation via similarities in informal institutional distance. Furthermore, colonization length moderates the relationship between colonial tie and informal institutional distance because longer presence of colonizers in the given colonized country intensifies the influence of colonizers' norms and values on the colonized.

This chapter discusses the contributions of this dissertation, implications of the research, limitations and avenues for future research, and intended empirical study beyond the dissertation phase. Among the contributions listed in this research, this research introduces colonization as a historical perspective that sheds light onto how legitimacy of informal institutions come about and it influences equity participation. Second, this research indicates that the mimicry effect of colonizers' norms and values on colonized countries is one explanation as to why similarities in informal institutions influence legitimacy attainment in the target firm country. Finally, this dissertation introduces the notion of colonizer country status (i.e., superiority over colonized countries) as an explanation of why emerging market multinational enterprises (EM MNEs) from colonized countries defer equity participation to target firms located in colonizer countries.

Contributions

This research uses institutional theory and postcolonial theory to extend our understanding of legitimacy and informal institutional distance, as well as their effects on equity participation. By integrating institutional theory and postcolonial theory, this research fills the gap in three ways: (a) This research introduces colonization as a historical perspective with which to understand how the past can explain and determine legitimacy of informal institutions; (b) This study introduces the colonizer country effect on colonized countries (i.e., colonizers' influence on colonized countries' to adopt its norms and values via mimicry) as an explanation to why similarities in informal institutions influence legitimacy attainment in the target firm country; and (c) This research introduces colonizer country status (i.e., its superiority over colonized countries) as an explanation as to why the acquirer must defer to the target firm and avoid legitimacy threats in the local environment.

Postcolonial theory brings to the forefront the importance of historical events to understand country dynamics in the present time. More importantly, this research brings history to the forefront of international business. Researchers (e.g., Abdelrehim et al., 2021; Buckley, 2021; Jones & Khanna, 2004) called for more studies incorporating historical components to international business. As such, this study brings in colonization as a historical event. This research explains that colonization, which involved the “conquest and control of other people’s land and goods” (Loomba, 2015, p. 20), resulted in the transformation and the augmentation of the norms and values of many countries (Bhabha, 1994; Prasad, 2003). During colonization, colonizers were aggressive in exerting their authority over colonized countries, including in the killings of individuals in colonized countries and the exertion of brutal aggression to those who did not comply with colonizers’ expectations, which included the adoption of their norms and values (Acemoglu et al., 2001; Englebert, 2000). Colonization resulted in the indoctrination of colonizers’ values and norms in colonized countries, where colonized countries (regarded as the inferior countries) were expected to emulate the values and norms of colonizers (construed as superior countries). This occurred because colonizers’ values and norms were presented as the more accepted ways of life (Loomba, 2015). Forced legitimation of colonizers’ values and norms in colonized countries is a part of the history of colonization and is a taken-for-granted assumption of postcolonial theory.

A critical component that can be deduced from postcolonial theory is that due to the events that occurred during colonization and the imbalance in the power distribution of countries, a country’s colonial background matters in how that country is perceived by the rest of the world. While some countries (i.e., colonized countries) were on the receiving end in terms of being influenced by the norms and values of another, others (i.e., colonizer countries) influenced the norms and values of countries. These historical backgrounds of a country can affect its legitimization or de-legitimization by other countries (North, 1990). In addition, these historical backgrounds are also capable of influencing firm strategies. In the equity participation literature, there is an already established understanding that similarities in the acquirer and target firm country norms and values influence the MNE acquirer's equity participation because these similarities increase the likelihood for legitimacy attainment in the target firm country (Liou et al., 2016). If the acquirer and target firm countries' norms and values are important considerations in deciding equity participation, then both MNEs' (i.e., acquirer and target firms) countries' historical backgrounds should also influence this decision. This is because these historical backgrounds can inform on what norms and values are deemed as legitimate. Accordingly, one can assume that EM MNE acquirers seeking equity participation in a target firm country will not only consider similarities in the norms and values of both countries, but will consider both countries' colonial backgrounds and how both countries' colonial backgrounds influence legitimacy attainment in the target firm country.

Second, this research contributes to the body of work focusing on the interplay between informal institutional distance and equity participation by explaining that legitimacy, which is the mechanism through which informal institutional distance leads to lower equity participation, is not only explained by similarities in the norms and values of both the acquiring and target firm countries. Legitimacy is also explained by the colonizer country effect of having influence over colonized countries. Mimicry of norms and values is an outcome of colonization that involves reconstructing colonized countries with the intent of having them emulate colonizers' ways of life (Frenkel, 2008). Although, colonizers' enforcement of their norms and values on colonized countries resulted in similarities of both countries' norms and values and the perception that these norms and values are 'universal' (e.g., the wide practice and acceptance of the English as a spoken language), colonizers' influence on norms and values are in fact due to cultural ethnocentrism and the need to show dominance over other countries (Loomba, 2015). In the cross-border acquisition (CBA) literature, cultural ethnocentrism is discussed as a barrier for MNE acquirers to achieve legitimacy in the host country because the host country is not likely to perceive the acquirer as socially acceptable when the acquirers are different from the locals (Yiu & Makino, 2002). Ethnocentrism of a colonizer country may also take shape in CBAs if the MNE acquirer is from a colonized country and the target firm is from a colonizer country. The colonizer country may choose to accept and legitimate acquirers from countries that are colonized by them because of acquirers' adoption of colonizers' norms and values, and this can influence the acquirer's decision to increase equity participation. In this scenario, mimicry clearly provides additional perspective to why informal institutions influences legitimacy attainment in a target firm country.

Although, this dissertation aims to extend the application of institutional theory by explaining that colonized countries' mimicry of colonizers' norms and values is positively related to equity participation via informal institutional distance, colonial tie could also explain the opposite relationship. An acquirer from a colonized country can face legitimacy threats, given that the acquirer is from a country that is perceived as being inferior. For this reason, this dissertation also considers this perspective.

Thus, this research contributes to the equity participation literature by explaining that legitimacy can be as a result of superiority-inferiority dynamic of the acquiring and target firm countries. That is, superiority of target firm country during colonization may influence the decision of acquiring firms from colonized countries to defer equity ownership to the target firms in order to avoid legitimacy threats associated with the host country's perception of the acquiring firm as inferior. Postcolonial theory explains that colonizers showed dominance over colonized countries through the use of aggression to enforce its own ways of life on colonized countries (Acemoglu et al., 2001), and through the introduction of new technologies and healthcare systems to colonized societies (Ball, 1983). In doing so, colonizers were able to establish ownership and authority over colonized countries and condemned colonized countries as 'primordial' and 'barbaric' (Said, 1978). This dissertation provides explanation that such historical event may influence CBAs in that acquirers from colonized countries may face difficulties integrating into a target firm (colonizer) country because their home countries are already perceived as inferior. In addition, these acquirers are expected to defer to the target firm to be the primary contact for the target firm country. Ethnocentrism of the target firm country may exacerbate the tendencies for locals to stereotype against the acquirer firm (Yiu & Makino, 2002) and perceive the acquirers as incompetent and ignorant (Sitkin & Stickel, 1996). This ultimately will result in increased difficulties for the acquirers in terms of being acceptable the target firm and its local environment (Yiu & Makino, 2002). To reduce legitimacy threats stemming from the target firm country, the acquiring firm must therefore defer rights of ownership to the target firm. In doing so, the acquirer can take advantage of the target firm's already established legitimacy in the local environment.

Lastly, this research makes contributions to the extant literature on legitimacy by bringing in Tost's (2011) definition of legitimacy to the forefront of this stream. The vast majority of studies applying legitimacy to theoretical frameworks often pay attention to Suchman's (1995) definition of legitimacy (Deephouse et al., 2017). Meanwhile, scholars such as Tost (2011) and Deephouse et al. (2017) explain that there are multiple approaches with which to understand how legitimacy is derived, including in terms of level of analysis, target audience, and theoretical perspective (e.g., from institutional theory, or social psychological perspective). For instance, Meyer and Scott (1983) explain legitimacy as the adequacy of an organization in which no question can be asked as a means to challenge the organization. Thus, researchers must consider the application of other definitions of legitimacy to better understand the different means through which legitimacy can be derived.

This research does not contradict prior discussions and findings on the importance of legitimacy for CBA decisions, but this research opens the discussion to begin to understand where and how legitimacy comes about. This research provides insight that legitimacy that is derived from similarities in informal institutions should not be examined with a simplistic and linear understanding. Rather, legitimacy should be examined with the consideration of contextual situations that explain the existence of legitimacy in norms and values.

Practical Implications of the Study

For EM MNEs from colonized countries considering CBAs in their colonizer countries, managers of both firms must manage the acquisition process with discretion. This is especially important when the EM MNE acquirer takes greater equity of the target firm. Managers from the acquiring and target firms must go through extensive training and preparation on how to manage inter-organizational conflicts during acquisitions. Within the MNE, managers will be expected to deal with conflicts that may ensue between employees of the two firms. These conflicts will include the typical conflicts such as disagreements and miscommunication issues that arise during acquisitions (Sitkin & Stickel, 1996) and conflicts that are due to the seemingly superior-inferior status of the target and acquiring firms. For this reason, extensive training of managers from both firms will prepare them to better deal with these conflicts. Managers of both firms can ensure that opinions of employees from both sides can be heard and considered, after which opinions from both sides can be combined to develop firm strategies. Effective conflict management improves performance and satisfaction of employees (Rahim, 2017). Managers must also learn to re-strategize on how to manage relations with the local environment. For instance, even though the EM MNE acquirer has greater equity over the target firm, both managers must work together to ensure that the target stays in charge of managing the firm's reputation and interactions with the local environment in order to avoid facing legitimacy threats.

This research also explains that colonial ties may not only have positive implications for equity participation decision (i.e., lower legitimacy threats), but colonial ties may also have negative implications for equity participation decision (i.e., increased legitimacy threats). Extant studies focused on positive implications of internationalizing into colonizer countries more than the negative implications (e.g., Meouloud et al., 2019). For instance, colonial ties between an MNE home and host countries offers numerous benefits such as political protection and lower transaction costs for MNEs (Caves, 1996). Colonial ties also results in the provision of special privileges and benefits to colonies (Niall & Schularick, 2006). Despite having these advantages, this research shows that MNEs, especially EM MNEs, must consider the negative implications of engaging in CBAs with colonial ties because their home country's seemingly inferior status may affect how target firms perceive these EM MNES (i.e., target firms that are home to colonizer countries). Having such knowledge a priori can help EM MNEs develop strategies that lower risks and uncertainties as while engaging in CBAs with target firms located in colonizer countries.

In addition, this research has policy implications for colonized emerging markets. An assessment of the potential negative implications of colonial ties for EM MNE CBA decision-making (i.e., increased legitimacy threats that may influence the decision to lower equity participation) may trigger emerging market governments' decision to take proactive efforts to strengthen colonial ties. For instance, emerging market governments could promote and strengthen policies that increase the immigration of those from colonized countries into colonizer countries. In doing so, immigrants from colonized countries transport their pre-colonial norms and values into colonizer countries in hopes that these norms and values would become normalized and accepted in colonizer countries overtime. Second, emerging market governments could intensify exportation of their entertainment industry (e.g., products and services) into their colonizer countries as a means to promote their pre-colonial norms and values in colonizer countries. The rise in globalization and technological advancement has allowed movie industries to reach audience members beyond its own countries. Netflix, for example, does not limit its movie showings to the country of production. Rather, individuals in Britain, for instance, can view movies produced in Nigeria or India. In this instance, governmental policies of Nigeria and India can be geared toward encouraging movie producers of their countries to incorporate bicultural components to movie production (e.g., Indian-British protagonists as characters). Alternatively, these governmental policies may provide positive reinforcements to Netflix and these movie producers to release movies to British audiences. Taking these measures could increase colonizer countries' familiarity with colonized countries' pre-colonial norms and values, which can in turn lower legitimacy threats that EM MNEs face in target firm colonizer countries (Zaheer, 1995).

Agenda for Future Research

This research contains several limitations. These limitations include generalizability of this research to developed market acquirers, conceptualization of colonial ties, a lack of consideration of other historical events other than colonization that affected colonized countries' institutions, and the disregard of research on the effect of colonization on CBA from a micro level of analysis. As such, avenues for future research are discussed. Below, the researcher highlighted several avenues for research in four categories. These future research areas include the consideration of a comparative study of developed market multinational enterprises (DM MNEs) and EM MNEs, examination of multiple conceptualizations of colonial ties and their effects on equity participation decision, institutionalization process and its effect on colonization, and colonization effects from a micro level of analysis.

Comparative Study

Although this dissertation focuses on EM MNE acquirers, we do not know if similar theorization can be applied to DM MNEs. The expectation may be that firms from DM MNEs (e.g., American acquiring firms) are less likely to deal with superior-inferior dynamics in CBAs with their colonizers (e.g., British target firms). This is because these acquiring firms are perceived as having a higher status as compared to EM MNEs (Hope et al., 2011). As such, acquiring firms from DM MNEs. As such, future research could further discussion in this area by conducting a comparative study of how colonial ties influence equity participation for acquiring firms from both economies. This is even more important because the superiority-inferiority dynamic of colonizers and the colonized, which is applied to explain the negative relationship between colonial ties and equity participation, is often emphasized with developed markets as superiors and emerging markets as inferiors (Frenkel, 2008). In reality, several developed markets were colonized, but there is no clear understanding on whether the superior-inferior dynamic applies to colonizers and the colonized from developed countries. Therefore, researchers must seek to understand whether DM MNEs from colonized countries also face legitimacy threats stemming from the superiority-inferiority dynamic between colonizers and the colonized, and whether such threats negatively influence equity participation decision.

Colonial Ties and Other Ties

Second, colonial tie in this study was theorized by focusing on the major colonizer that had major impact on the colonized country. This major colonizer is critically important in order to understand norms and values that are adopted by each colonized country. However, over the course of time, some colonized countries experienced the invasion of and/or rulership of numerous other colonizers (Kittleson et al., 2019). For example, the Dutch and the British colonized South Africa, and while Afrikaans is a South African language that is similar to Dutch, English is a well-known British language that is also spoken in South Africa (Hall, 2021). The practice of these two languages may open doors to South African acquirers' legitimacy attainment in the Netherlands and the United Kingdom while seeking internationalization or CBAs in either of these two countries. Research seeking to understand the impact of multiple colonizers versus single colonizers on equity participation decision can further develop our knowledge of how EM MNEs use colonial ties to make equity participation decisions.

Beyond the consideration of colonial ties, other cross-country relations and networks formed due to colonization. For instance, cross-country networks were formed from having the same colonial link (i.e., India and Nigeria have 'sister ties' because both countries were colonized by the United Kingdom). As such, researchers need to consider these cross-country relations in terms of how these relationships influence legitimacy attainment of an acquirer in a target firm country. The nature of relationship formed from such links is likely to affect legitimacy differently from what is theorized in this study (i.e., colonial ties can influence legitimacy via mimicry or superiority-inferiority dynamics). Other examples of cross-country relations and networks that formed from colonization are those related to similarities in norms and values. For instance, colonial heritage (i.e., similarities in languages and religions that are a result of colonization) is a common effect of colonization that is not limited to commonality between colonial ties or sister ties (the Egyptians were never colonized, but Arabic is their official language and Islam is their major religion; these two norms are universally recognized and spoken). These colonization effects are likely to influence legitimacy attainment of acquiring firms in the target firm country. A typical Egyptian firm may likely seek lower equity ownership in a target firm located in France or Spain due to perceived difficulty in communication and relationship development with internal and external stakeholders.

Therefore, researchers should consider other potential effects of colonization on countries beyond colonial ties, and to examine how colonization affect CBA decisions.

Colonization and Institutionalization Process

Colonization experience influenced how institutions are shaped and what is deemed as legitimate. However, there are other historical events that changed the nature of institutions overtime, including what is deemed as legitimate within those institutions. This phenomenon can be better understood with the application of ‘institutionalization’ literature. Although institutions are established and adopted by individuals, institutions do not stop developing. Events occur that result in a change or addition to existing institutions (Selznick, 1957). The process of institutionalizing involves the gradual introduction of new practices and norms to institutions (Selznick, 1957). This process often begins with the introduction of an instrument into the institution. Once an instrument is introduced and accepted, the instrument becomes part of the values, norms, rules, and behaviors of individuals in the institution. While colonization experience played a significant role to contribute to what institutions have become in most emerging markets, there are many other influences to institutions. For instance, immigration occurred, and individuals immigrating into other countries transported their countries’ norms and values to other countries, thus promoting the idea of institutionalization. Furthermore, technological advancements and globalization resulted in the promotion of some countries’ norms and values to other countries. Moving beyond colonization effects on countries, researchers need to consider these other factors (i.e., immigration, technology, and globalization) that may influence legitimacy attainment of acquiring firms in target firm countries. The focus of legitimacy attainment via these different factors may extend the extant knowledge of how and why legitimacy can influence equity participation decision.

Also, future research can consider the interval between the end of colonization and the acquisition announcement deal date to understand whether colonization effects (i.e., mimicry and superiority-inferiority dynamics) stay strong enough overtime to influence legitimacy attainment of acquirers. The time period from the end of colonization to the CBA date may affect how much of the colonizers' norms and values were retained or abandoned overtime by colonized countries. Multiple historical influences such as globalization, immigration and technology can also influence and transform norms and values in a country within a space of time (Inglehart & Baker, 2000), further reducing the effect of colonization on legitimacy attainment in target firm countries. For instance, a colonized country with longer interval between the end of colonization and CBA date may have undergone significant transformation as compared to one with shorter interval, thus possessing institutional components beyond those of its colonizers. Also, longer time period between when colonization ended in a colonized country and when an EM MNE engages in CBA may infer that several pre-existing norms and values were abandoned overtime and newer norms and values are now introduced in a colonized country. The abandonment translates to lower influence of colonizers' norms and values on colonized countries' informal institutions. Within this field of study, scholars can examine differences in the effect of the length of colonization for colonizers in the 19th century (i.e., the Spanish in South America) versus colonizers in the 20th century (the British in some Asian and African countries). Spanish colonizers spent a longer period of time in colonized countries than the British colonizers

(Acemoglu et al., 2001), and therefore imparted their norms and values on those who were colonized more than the British. Therefore, future studies must investigate whether the time period between the end of colonization and CBA deal date moderates the relationship between colonial ties and informal institutional distance.

Micro Level Influences

There is need for research to move beyond examining the effects of colonization on equity participation from a macro level to micro level. For instance, the consideration of micro level analysis can help us to understand how colonization effects on countries can trickle down to CBA negotiation processes. Negotiations between parties from both the acquiring firm from a colonized country and target firm from the colonizer country may affect the distribution of bargaining power, where parties from the target firm have more bargaining power over parties from the acquiring firm. Representatives of such acquiring firms may be pressured to give in to what representatives from the target firm request for, thereby leading to outcomes that are more favorable for those from the target firm. A process approach to qualitatively study and understand the dynamics of such negotiation processes will further develop this research stream. Another instance where the effect of colonization on equity participation can be studied from a micro level is understanding whether procedural (fairness in the process in which a situation is handled), distributive (fairness in the outcome of a situation), and informational (adequate information being shared to parties involved) justices occur in a similar fashion with employees from both firms before and during CBA negotiations. Ellis et al. (2009) found that informational justice is a significant predictor of value creation, especially on the market positioning of both firms. We do not know about whether this phenomenon (i.e., justices) transpires in the same fashion for both firms; whether acquiring firms find the approach in which procedural, distributive, and informational justices are handled is fair; and their effects on both firms.

Research Design for Empirical Study

In order to test the propositions from this study, this section provides information about sample information, measures that will be used, list of control variables, data sources for the measures, data analyses process, and robustness checks.

Sample

The sample will comprise of publicly listed acquiring firms located in emerging markets and target firms located in both emerging and developed markets. The sample size will be a panel data and will only consider cross-border deals. Furthermore, the sample will be restricted to observations that are without missing data, incomplete and duplicate information.

Measures

Dependent Variable

The researcher provides detailed information on measures and sources of data in the subsequent section:

Equity Participation. Equity participation (measured as the percentage of equity that the acquirer desires to own in the target firm) will be retrieved from SDC platinum database. The measure is continuous and ranges from 0% to 100%. Equity sought measure is appropriate for this study because this study focuses on the percentage of equity that the acquirer seeks to own in the target firm, which is different from what the acquirer owns after acquisition. The theorization of this research focuses on factors (i.e., colonization and institutional differences) that may influence what the EM MNE acquirer seeks to own in the target firm without the consideration of factors that may influence the target firm to agree on the percentage of equity obtained by the acquirer. Equity sought measure was used in several equity participation studies, including Chari and Chang (2009) and Gaffney et al. (2016).

Independent Variable

Colonial Tie. Colonial tie is measured as the link in colonizer-colonized relationships (Ellis et al., 2018; Liou & Rao-Nicholson, 2017). Colonial tie is examined in the CBA literature as a predictor of outcomes of CBAs, including equity ownership (Ellis et al., 2018) and post-acquisition performance (Liou & Rao-Nicholson, 2017). The data on colonial tie will be sourced from Hensel and Mitchell's (2007) The Issue Correlates of War (ICOW) and measured using a dummy variable of 1 if a colonizer-colonized relationship exists between acquiring firm and target firm home countries, and 0 if otherwise. Although, there were multiple colonizers in some colonized countries at different points in time in most colonized countries, this measure accounts for the colonizer that made the most impact in the colonized country (Hensel & Mitchell, 2007).

Mediator

Informal Institutional Distance. Cultural distance is most often measured using Hofstede's (1980) cultural dimension. For example, Liou et al. (2016), Ellis et al. (2018), and Chari and Chang (2009) use Hofstede's cultural dimensions in their CBA studies. The particular measure for informal institutional distance used in this research follows Liou et al. (2016)'s approach. Informal institutional distance will be measured using four of Hofstede's (1980) cultural dimensions: power distance, uncertainty avoidance, individualism, and masculinity. The composite measure of informal institutional distance will be developed by using Euclidean formula (Du & Boateng, 2015; Gaur & Lu, 2007; Kostova et al., 2020).

Moderator

Length of Acquirer Country Colonization. The length of acquirer country colonization will be sourced from ICOW project and Britannica. This measure will be derived using the difference between the year of independence of the acquiring firm's country and the year of invasion in which colonizers entered the acquiring firm's country. Data on the acquiring firm country's year of independence will be sourced from ICOW project, while data on the year of invasion by colonizers into the acquiring firm country will be sourced from Britannica.

Control Variables

Several firm-, industry-, and country-level controls will be used in the research. Firm-level control variables will be obtained from SDC Platinum database. Two different CBA experience measures are going to be captured in this study, and data source for these measures is SDC Platinum Database. Research shows that *acquiring firm's prior CBA experience* results in lower ownership position in target firms (Malhotra et al., 2011b). Following Ellis et al.'s (2018) approach, acquirer prior CBA experience will be measured by calculating the cumulative number of acquirer's CBA deals by the acquirer 4 years prior to the focal deal. Scholars (e.g., Chari & Chang, 2009) indicated that the *acquiring firm's prior CBA experience in the host country* affects ownership choice. Therefore, the acquiring firm's prior CBA experience in the host country will be considered as one of the control variables and will be measured by calculating the cumulative number of acquirer’s CBA deals in the target firm country prior to the focal deal.

Acquirer firm size (Liou et al., 2016) and *target firm size* (Chari & Chang, 2009) are shown to negatively influence to ownership choice. Both variables will also be controlled for using the log value of total assets, following Liou et al. (2016), and both variables can be sourced from Compustat Global. The study will control for the *acquirer public status*, which is sourced from SDC Platinum Database. *Government ownership in the target firm* is positively related to equity participation (Kedia & Bilgili, 2015). Therefore, this variable will be included to the model. Government ownership in the target firm will be sourced from SDC Platinum Database and measured as a dummy variable where 1 equals the government’s ownership share in the target firm, and 0 equals otherwise (Ellis et al., 2018; Kedia & Bilgili, 2015; Uhlenbruck & De Castro, 2000). Findings show that *pre-existing equity ownership in target firm* influences the ownership percentage of a firm (Malhotra & Gaur, 2014). As such, pre-existing equity is included. Pre-existing equity stake is measured using a dummy variable of 1 if the acquiring firm had a pre-existing equity stake in the target firm and 0 otherwise (Kedia & Bilgili, 2015; Malhotra & Gaur, 2014), and the data can be sourced from SDC Platinum.

Several industry level controls will be considered as well, including the acquirer industry, industry relatedness, and whether the target firm is considered a high-tech industry or not. These industry level controls are going to be sourced from SDC Platinum Database. In order to measure the *acquirer industry*, the researcher will use a categorical variable classifying firms according their two digits SIC code (Liou et al., 2016). Acquirer industry will be added to the model as fixed effect. *Industry relatedness* is positively related to equity choice (Lahiri et al., 2014). Industry relatedness will be measured using the first two digits of the acquiring firm and target firm SIC codes (Liou et al., 2016). Industry relatedness will be coded as 1 if the two firms are related, or have the same SIC codes, and 0 if otherwise. Numerous findings (e.g., Malhotra & Gaur, 2014) indicate that *Target firm industry sector* is positively related to equity participation. Target firm industry sector data measure whether the sector is a high-tech industry or not. The researcher will follow the approach of Chari and Chang (2009) by using a dummy variable of 1 indicating that the industry sector of the target firm is a high-tech industry and 0 indicating that the target firm industry sector is not a tech industry.

Country level control variables used in this study will include the acquirer country GDP growth, formal institutional distance, and geographic distance. *Acquirer GDP growth* is positively related to equity participation (Malhotra & Gaur, 2014). Acquirer GDP growth will be sourced from World Development Indicators and is measured as the difference in the rate of GDP growth in the acquirer's home economy. Acquirer GDP growth is going to be lagged by one year.

Formal institutional distance impacts equity participation (Ellis et al., 2017; Liou et al., 2016), and as such, should be included as part of the control variables. Formal institutional distance measure will be developed following Ellis et al.'s (2018) composite measure of formal institutional distance. The researcher will use differences in the regulatory, political, and economic institutions between the acquiring and the target firms. Regulatory institutions of the acquiring firm and the target firm are measured using regulatory quality and rule of law. These two measures will be sourced from World Bank World Governance Indicators (WGI) and are based on the perceptions of experts, government and nongovernment agencies, entrepreneurs, and citizens. Regulatory quality measures the perception of the government's ability to formulate and implement policies and regulations that promote private sector development, and rule of law measures the perception of the extent to which agents have confidence in and abide by the rules of the society. These two measures range from -2.5 to 2.5, and the higher scores indicate stronger quality of institutions.

Political institutions of the acquiring firm and target firm are measured using political rights, civil liberties, and political affinity. Political rights and civil liberties are sourced from data reported by the Freedom House, while political affinity is sourced from UN General Assembly. Political rights data is measured as rating of the extent to free and fair elections in the given country, whether the elected individuals rule the country, competitiveness of political parties, and representation of minority groups in politics and government. Civil liberties data are measured also using rating of freedom of expression, assembly, association, education, and religion; fair legal system; free economic activity; tendency to strive for equality of opportunity for everyone. These two measures are rated using a 7-point scale, where higher scores indicated lower quality of institutions. These scores will be reverse-coded so that countries with greater political rights and civil liberties are higher in scores than countries with lower political rights and civil liberties. Political affinity measures the dyadic UN General Assembly voting patterns of the acquiring firm and target firm nations. The measure ranges from -1 (opposite voting patterns between the two nations) to 1 (completely identical voting patterns between the two nations), and will be reverse-coded so that higher values reflect greater dissimilarity in voting patterns between the two nations and smaller values reflect greater similarity in voting patterns.

Finally, economic institutions of the acquiring firm and target firm nations will be calculated using GDP per capita and classification of the target firm nation of emerging or developed economy. GDP per capita measure is derived from International Monetary Fund (IMF). GDP per capita will be log transformed following Lahiri et al. (2014) approach. The second variable, classification of the target firm nation of emerging versus developed economy, was classified using IMF classifications of 1 if the target firm nation is a developed economy and 0 if the target firm nation is an emerging or developing country. The distances between the acquiring firm and target firm nations' institutional profiles are going to be calculated by subtracting measures of the acquiring firm nation from the target firm nation of each variable and then deriving the respective values. Positive values represent higher formal institutional distance of the target firm when compared to the acquiring firm. All measures will be collected to reflect a one-year lag so that the measures pertaining to formal institutional distance are representing measures for one year prior to the focal deal.

Geographic distance is a predictor of equity choice of acquirers (Slangen & Beugelsdijk, 2010) and will be added as a control variable. Geographic distance represents physical distance between the home EM MNE acquiring firm and target firm country location. This variable will be sourced from Geobytes database. Following prior studies (e.g., Malhotra et al., 2009; Malhotra & Gaur, 2014; Slangen & Beugelsdijk, 2010), the researcher will use Geobytes database as the measure for geographic distance, which is "the actual distance in kilometers between the capital cities of the acquiring and target countries" (Malhotra & Gaur, 2014, p. 198). In addition to acquirer industry, fixed effects of *year and acquirer country* will be included as controls for this study. The comprehensive list of variables, measures and sources can be found in Table 4.

Table 4

List of Variables Used for the Study on EM MNE Acquirers Equity Sought

Type	Variables	Measure	Source
Dependent variable	*Equity participation*	Percentage of equity sought by the acquiring firm	SDC Platinum Database
Independent variable	*Colonial tie*	Dummy variable equaling 1 when the acquiring and target firm countries have colonizer-colonized relationship and 0 otherwise	Issue Correlates of War (ICOW) project
Mediator	*Informal institutional distance*		
	Hofstede cultural distance	Power distance	Hofstede (1980)
		Uncertainty avoidance	Hofstede (1980)
		Individualism	Hofstede (1980)
		Masculinity	Hofstede (1980)
Moderator	*Acquirer Country Colonization Length*	Difference between acquirer country year of independence and year of invasion by colonizer	Issue Correlates of War (ICOW) project; Britannica
Control variables	*Acquirer GDP growth*	Annual growth rate of GDP in the acquiring firm home nation	World Development Indicators (WDI)
	Formal institutional distance		

(table continues)

Table 4 *(continued)*

Variables	Measure	Source
Regulatory quality	Perceptions of the government's ability to formulate and implement policies and regulations that promote private sector development	World Bank Worldwide Governance Indicators (WGI)
Rule of law	Perceptions of the extent to which agents have confidence in and abide by the rules of society	World Bank Worldwide Governance Indicators (WGI)
Political rights	Rating of extent to free and fair elections, and whether the elected rule, competitiveness of political parties, and representation of minority groups in politics and government	Freedom House
Civil liberties	Rating of freedom of expression, assembly, association, education, and religion; fair legal system; free economic activity; tendency to strive for equality of opportunity for everyone	Freedom House
Political affinity	UN General Assembly voting patterns between acquiring and target firm nations ranging from -1 (completely opposite) to 1 (completely identical)	UN General Assembly
GDP per capita difference	Difference in the GDP per capita of acquiring and target firm nations	International Monetary Fund (IMF)
Target firm's economic classification	Dummy variable equaling 1 when the target firm is located in a developed economy	International Monetary Fund (IMF)
Acquirer prior CBA experience	Cumulative number of acquirer's CBA deals in the four years prior to the focal deal	SDC Platinum Database
Acquirer prior CBA experience in host country	Cumulative number of acquirer's CBA deals in the target firm country prior to the focal deal	SDC Platinum Database
High-tech industry	Dummy variable equaling 1 when the target firm is a high-tech industry and 0 otherwise	SDC Platinum Database

(table continues)

Table 4 *(continued)*

Variables	Measure	Source
Government ownership in the target firm	Dummy variable equaling 1 when the government has ownership share in the target, and 0 when there is no government involvement on the target side	SDC Platinum Database
Acquirer public status	Dummy variable equaling 1 when acquirer is a public company	SDC Platinum Database
Related industry	Dummy variable equaling 1 (unrelated) when the first two SIC codes of acquiring and target firms are the same, and 0 otherwise	SDC Platinum Database
Pre-existing equity stake	Dummy variable equaling 1 when the acquiring firm had a pre-existing equity stake in the target and 0 otherwise	SDC Platinum Database
Geographic distance	Distance in kilometers between the capital cities of the acquiring and target countries	Geobytes database
Acquirer firm size	Log of acquirer total assets	Compustat
Target firm size	Log of target total assets	Compustat
Acquirer industry (fixed effects)	First two digits of acquiring firm SIC codes	SDC Platinum Database
Year (fixed effects)		
Acquirer country (fixed effects)		

Analyses

Before conducting the data analysis, histogram images and outlier assumptions will be checked to ensure that there is no indication of an outlier in the study. Also, the variance inflation factor approach of Belsley et al.'s (1980), which explains that a variance inflation factor of less than 10 indicates no sign of multicollinearity, will be used to check for potential multicollinearity in the variables.

In order to produce an accurate result that is without inflated coefficients of the variables, the omitted variable bias will be addressed. Omitted variable bias is a misspecification analysis that occurs when a relevant variable is excluded from the model (Wooldridge, 2015). Omitted variable bias occurs very often because there is no clear-cut way to know all the variables that need to be controlled in an empirical study. The omission of a relevant variable is also known as a confounding variable, which is a variable that correlates with a predictor and an outcome (Frank, 2000). Omitted variable bias can result in the correlation between the error and some explanatory variables, which then results in biased estimators (Wooldridge, 2015). Omitting an important variable is likely to affect the coefficients of informal institutional distance, colonial tie, and other explanatory variables of interest by inflating the coefficients of these variables, resulting in an overestimation of the effect of some explanatory variables on the outcome variable (i.e., equity participation) and distortion of the results (Frank, 2000). Furthermore, when the main variable(s) is statistically significant without the confounding variable, but is insignificant with the inclusion of the confounding variable, the main variable cannot be interpreted to have an effect on the dependent variable (i.e., equity participation).

Although, there is no way to completely eliminate omitted variable bias, some measures can be applied to mitigate omitted variable bias. For instance, the inclusion of proxy variables can be used to mitigate omitted variable bias. This approach is applied when there is a vague idea about which unobserved factor is missing in the regression (Wooldridge, 2015). In this study, the *acquiring firm's status* will be considered as a missing variable because a firm's high status is a critical characteristic of the firm that may mitigate legitimacy threats faced in the target firm country. The acquiring firm's status will be measured as the cumulative number of EM MNEs' CBA experience in a developed country prior to the focal deal, and this data can be sourced from SDC Platinum. Prior studies indicated that the EM MNEs' abilities to internationalize into developed countries may be a signal of their status (e.g., Hope et al., 2011).

OLS regression will be conducted with the inclusion of the proxy variable and without the proxy variable. The intent is to examine whether the inclusion of the proxy variable (i.e., acquiring firm's status) results in lower coefficients for the independent variable (i.e., colonial tie) and the mediating variable (i.e., informal institutional distance). If the coefficients for both variables are lower, then the proxy variable may be useful for this empirical study, and there may be an indication of overestimated bias. This would also mean that colonial tie and informal institutional distance coefficients are each explaining portions of the variance that are supposed to be accounted for by the inclusion of acquiring firm status in the model. When the variance of acquiring firm status is not accounted for via inclusion of the proxy variable in the model, colonial tie and informal institutional distance will capture the variance as residuals.

To further verify that there is omitted variable bias in the given model, the researcher will examine the correlations of the independent variable (i.e., colonial tie), mediator (i.e., informal institutional distance), and dependent variable (i.e., equity participation). If the correlations of all three variables are not aligned, as expected, then this further indicates that omitted variable bias is present and hidden in the model. For instance, if colonial tie and informal institutional distance are positively correlated, but in the regression analyses, colonial tie is positively correlated with equity participation, while informal institutional distance is negatively correlated with equity participation, there is need to consider omitted variable bias as a possible cause for this occurrence.

Furthermore, the researcher will ensure that acquiring firm's status is a strong instrument that is used to mitigate omitted variable bias. According to Larcker and Rusticus (2010), researchers should not use an instrument variable if the intended instrument is weak. This is because the use of a weakly correlated instrument with the regressor can result in highly biased estimates and can provide incorrect statistical inference. Instead of using weak instruments, more controls should be used, or robustness checks can be applied to mitigate omitted variable bias. For this reason, scholars must test for the appropriateness of acquiring firm status as a proxy variable. In order for this variable to be appropriate, the variable has to be correlated with the endogenous regressor but uncorrelated with the error in the equation (Larcker & Rusticus, 2010). Thus, to determine the appropriateness of this proxy variable, a test for endogeneity will be conducted where the residual is predicted and included in the model. The lack of significance in 'e' will indicate that the proxy variable being used (i.e., acquiring firm status) is an appropriate proxy variable for the model.

Given that the data for this research will be a panel data consisting of multiple years and countries, a Hausman test will be conducted to determine whether the data require hierarchical linear modeling (i.e., random effects model) or not. Statistical significance will indicate that fixed effects regression is appropriate for this study. The panel data analyses will use the acquiring firm's country as a second level data.

This data may likely include potential sample selection bias due to the nature of the sample size (i.e., CBAs from multiple countries) and the non-random nature of the sample (Ellis et al., 2017). Due to potential selection bias, one must account for sample selection bias. Therefore, Heckman two-step regression will be conducted following Heckman's (1979) recommendation. Geographic distance will be used as the instrumental variable for this research, where for each geographic distance indicated in this research, the likelihood of an acquiring firm seeking CBA in the target firm location is 1 for the actual location for this sample and 0 for other possible locations for this study. The inverse mill’s ratio derived from the Heckman two-step regression will be included in the main analysis. Finally, this analysis will be a moderated mediation regression, and the equation is depicted below:

$$EquityParticipation = \beta_1 + \beta_2 ColonialTie + \beta_3 ColonizationLength + \beta_4 ColonialTie(ColonizationLength) + \beta_5 InformalID + \beta_6 InformalID(ColonizationLength) + \varepsilon_1.$$

Robustness Checks

Robustness check will be conducted to verify robustness of the results. Two additional analyses will be conducted where variables are substituted and included in each of the three analyses. The first robustness check for this study will involve the substitution of equity participation as a dependent variable for a categorical measure of equity participation (Minority interest = 0-49%, Majority interest = 50-99%, and Full equity ownership interest = 100). In the second robustness check, the dependent variable will be substituted for equity owned after acquisition, and this measure is based on the percentage of equity owned by the acquiring firm after acquisition. These two measures can be sourced from SDC Platinum.

Conclusion

This section provides a summary of the contributions, implications, limitations, future research, and intended empirical study beyond the dissertation. This research contributes to the EM MNE equity participation literature by integrating institutional theory with postcolonial theory. In doing so, this research introduces colonization as a historical event that impacts legitimacy, and explains that mimicry of colonizers norms and values reduces informal institutional differences between EM MNEs from colonized countries and target firm colonizer countries, and lower informal institutional differences increase in equity participation via lower legitimacy threats. Also, the superiority-inferiority dynamic between colonizers and colonized countries can increase legitimacy threats of EM MNE acquirers, thus lowering equity participation of EM MNE acquirers.

The research has implications for EM MNEs. First, EM MNEs must consider the negative implications of engaging in CBAs in their colonizer countries, such as potential legitimacy threats in colonizer countries, in order to make better estimations of risks and uncertainties. Second, emerging market governments must consider policies that promote their countries' norms and values in colonizer countries as a means of mitigating legitimacy threats that EM MNEs may face in their colonizer countries. This study highlights several theoretical and methodological limitations as future research considerations in this stream of literature.

Finally, the researcher highlighted potential future directions to test the propositions beyond this dissertation. The data sources, measures, and constructs for each variable were provided. The data sources for this research included SDC Platinum Database, ICOW project, Britannica, Hofstede (1980), The World Bank, WDI, WGI, Freedom House, UN General Assembly, IMF, and Geobytes database. Furthermore, this dissertation provides an explanation pertaining to the data analysis process and preliminary data checks such as outlier and multicollinearity checks, omitted variable bias, the Hausman test, Heckman's two-step regression, outlier and multicollinearity tests. An instrumental variable (the cumulative number of EM MNEs' CBA experience in a developed country prior to the focal deal) to account for omitted variable bias will be included in this study as a proxy variable for the acquiring firm's status. The Hausman test is conducted to determine whether fixed or random effects are appropriate. Lastly, Heckman's two-step regression is used to calculate the inverse-mill's ratio. In addition to the main data analysis, two robustness checks will be conducted by substituting the dependent variable, equity sought, with (a) a categorical measure of equity sought, and (b) equity acquired after the acquisition is complete.

Overall, this dissertation provides insight into why legitimacy, as defined from Suchman's (1995) view, explains the relationship between informal institutional theory and equity participation. In doing so, postcolonial theory is integrated with institutional theory to explain that legitimacy is derived through mimicry of colonizers' norms and values by the colonized. By mimicking colonizers' norms and values, EM MNE acquirers are able attain legitimacy in the target firm (colonizer) country. In addition, this dissertation used a different definition of legitimacy (i.e., Tost's [2011] definition of legitimacy) to explain that legitimacy can also be derived from deference of authority to target firms by the acquiring firms. Doing this will reduce potential legitimacy threats faced by EM MNE acquirers in the target firm country. This research opens the door to multiple theoretical explanations of legitimacy to understand how legitimacy may influence equity participation decisions.

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