Emerging vs. Advanced Countries firms' investing in Italy: an empirical analysis on the effect of institutional distance on the entry strategy.

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Entry and access to competencies abroad:

Emerging Market Firms versus Advanced Market Firms

ABSTRACT

This article is about Emerging Market Firms (EMFs) acquiring firms in advanced economies. We claim that EMFs adopt a different entry behavior from that of Advanced Market Firms (AMFs). Namely, as a first hypothesis we claim that, AMFs undertake a partial (rather than a complete) acquisition when they wish to avoid the dispersion of the bundle of information and knowledge residing in the target company, while EMFs are more likely to prefer a greater degree of ownership and control as they lack the needed experience to deal with the relevant complexity and to manage partnerships. Furthermore, we claim that EMFs experience a higher propensity to control the local partner the higher the institutional distance with the host country, since they enjoy a better institutional environment when they invest in advanced countries and, hence, they are less likely to need a local partner. To test our hypothesis, we developed an econometric analysis applied to foreign acquisitions in Italy along the decade 2001-2010 and we study the entry mode of AMFs and EMFs. Our result confirm the first hypothesis and shows that distances in property rights and investment freedom effectively increase the probability to undertake full acquisition for EMFs.

Keywords (max 6): Emerging Market Firms (EMFs), entry mode, competencies, institutional distance, counterfactual analysis.

1. Introduction

This article is about Emerging Market Firms (EMFs) acquiring firms in advanced economies. This goes against the grain of conventional wisdom about the fashion and direction in which capital, technology, and knowledge should flow in the global economy. And it represents a situation which extant international business theory fails to explain well. EMFs supposedly use international expansion in advanced countries as a springboard to compensate for their competitive disadvantages. In order to compete internationally, they need to overcome their own weaknesses quickly. Therefore, they aim to acquire capabilities and technologies such that they do not need to develop the same internally. Previous studies (e.g. Luo and Tung, 2007) have already shown that when investing in developed countries, EMFs seek sophisticated technology or advanced manufacturing know-how by acquiring foreign companies. Namely, EMFs outward investments are triggered mainly by 'pull' factors, such as the desire to secure critical resources, acquire advanced technology, obtain managerial expertise, and gain access to consumers in key foreign markets, so that they can overcome their latecomer disadvantages (Mathews, 2006).

In general, EMFs are eager to acquire technology and brands through internationalization to fill their resource void. Foreign firms' willingness to sell or share their technology, know-how or brands due to financial exigency or restructuring needs makes it possible for EMFs to fulfill this need (Child and Rodrigues, 2005).

Although most multinationals come from advanced countries, EMFs have made a remarkable entrance on the international scene in the last decade. Since the 1990s, in both developed and developing countries, M&A have become a more important component of inward and outward FDI. However, although EMFs have the ambition to become global players, their pattern of international expansion is supposedly different to that of their developed world counterparts (Guillèn and Garcia-Canal, 2009). In fact, EMFs have been relatively more successful in penetrating other developing countries, but relatively less successful in entering developed countries (Cuervo-Cazurra and Genc, 2008).

Within this context, we claim that EMFs adopt a different entry behavior from that of Advanced Market Firms (AMFs), even when they are driven by similar motivations. Namely, we claim that, when acquiring a foreign company, a MNE wishing to avoid the dispersion of the bundle of

information and knowledge residing in the target company is more likely to preserve the value of the target firm's resources by undertaking a partial (rather than a complete) acquisition. This is particularly true when MNEs adopt competence exploring strategies, and they experience important opportunities to learn from local target companies. However, this is less true for EMFs as they lack the needed experience to deal with the relevant complexity and to manage partnerships. Hence, EMFs are more likely to prefer a greater degree of ownership and control in the local target company.

Additionally, EMFs experience a higher propensity to control the local partner the higher the institutional distance with the host country. In fact, as EMFs investing in advanced countries enjoy a better institutional environment there, they are less likely to need a local partner (to reduce the relevant uncertainty).

In order to test our hypotheses, we developed an econometric analysis applied to foreign acquisitions in Italy along the decade 2001-2010. The availability of such a sample allows us to analyze the uniqueness of EMFs' behavior and to compare their entry choice with AMF, thus providing a sort of "natural" counterfactual.

This work is original in various respects. Although both the literature on the MNEs' entry mode and the studies focusing on EMFs are vast, the latter's entry strategy in developed countries has not received much attention so far. Here, we focus on factors explaining the degree of ownership in local companies acquired by EMFs. Namely, thanks to a detailed database for Italy, we compare EMFs with AMFs, thus addressing the crucial issue of "the unique or special features of the home country environment" influencing international entry mode (Brouthers and Hennart, 2007; Li and Peng, 2008). Indeed, in this paper we test the uniqueness of EMFs by comparing their entry mode behavior to that of MNEs from advanced countries.

Additionally, MNEs' entry mode choice has been widely investigated by international business scholars mainly focusing on determinants and patterns of the choice acquisitions vs. greenfield initiatives, or wholly owned subsidiaries vs. joint ventures (for recent reviews, see Dikova and van Witteloostuijn, 2007; Hennart, 2009). Instead, we focus on the level of control and the equity share in cross border acquisitions, an issue that has not received much research attention so far (for an exhaustive survey and discussion, see Chari and Chang, 2009).

The paper is organized as follows. The next Section presents our conceptual framework and testable hypotheses. The third Section presents the data and descriptive statistics, while econometric models and variables employed are reported in the fourth Section. The fifth Section illustrates and discusses the results, while the final Section summarizes the main contributions of the paper.

2. Conceptual background and hypotheses

Multinationals are increasingly seeking to augment, as well as exploit, their global competitive advantage. The emergence and growth of asset-seeking and competence-creating MNE activity not to exploit a particular set of ownership specific advantages but to access new ones is driving firms to acquire target firms abroad. Acquisitions, in particular, are being used in order to augment the competitive ownership-specific advantages of the investing companies by exploiting and accessing the capabilities and resources of particular companies.

Several studies have identified the access to knowledge as a major motive for foreign acquisitions of multinational companies abroad (Anand and Delios, 2002; Anand and Kogut, 1997; Florida, 1997; Kuemmerle, 1999). Due to the growing importance of knowledge as the fundamental rationale for investment, foreign entry by acquisition of local companies has increasingly become the primary fashion by which foreign MNCs access complementary resources, and information and knowledge otherwise hard to obtain (Anand and Delios, 1997; Meyer et al., 2009a; Meyer et al., 2009b; Phene et al., 2010).

This is particularly true for EMFs, which systematically use international expansion as a springboard to develop critical resources needed to compete more effectively against their global rivals at home and abroad and to reduce their vulnerability to institutional and market constraints at home (Luo and Tung, 2007).

According to mainstream IB theory, for the purpose of seeking strategic resources and capabilities, companies will choose either fully owned or majority owned acquisitions. Indeed, only with dominant positions can companies fully reflect their economic rationale, strategic ability, and resource commitment during the course of entry and operations (Caves, 1996). To

eliminate the opportunity cost of delaying entry, MNEs can fully take over the indigenous firms that control the target assets. Although such acquisitions seem to be driven by speedy entry into foreign nations, the underlying motive is access to complementary capabilities embedded in the acquired firms. MNEs that lack the complementary capabilities owned by indigenous firms may, for instance, have to procure reputable brands or distribution networks from local firms (Chen and Hennart, 2002, Chen, 2008).

Owing to their tacit and proprietary nature, complementary capabilities owned by indigenous firms can be difficult to duplicate internally and their external purchase too costly to negotiate and contract (Chen, 2005; Chi, 1994). In such cases, one alternative to developing or procuring complementary capabilities is to buy out the local businesses in which the targeted assets are embedded. There is ample empirical evidence to suggest that MNEs use acquisitions to procure a wide variety of proprietary assets from indigenous firms (Anand and Delios, 2002; Caves and Mehra, 1986; Hennart and Park, 1993).

Within this context, the degree of ownership and control that foreign MNEs maintain on the local target firm becomes a crucial dimension (Brown et al., 2003; Shrader, 2001). Transaction cost economics is among the theories most widely used to study foreign subsidiary ownership policy (Makino and Neupert, 2000; Yiu and Makino, 2002; Zhao et al., 2004). It argues that the choice between partial and full ownership depends on the net benefits of sharing equity relative to those retaining full ownership. Hennart (1991) argues that investing firms tend to choose joint ownership with a local partner over full ownership when they need continuous access to local firms' resources of, for example, knowledge and know-how, which are subject to high market transaction costs (Makino and Neupert, 2002). Empirical studies suggest that these arguments hold not only for greenfield joint ventures (Brouthers, 2002; Dikova and Van Witteloostuijn, 2007), but also for partial ownership acquisitions (Chiao et al., 2010; Lopez-Duarte and Garcia-Canal, 2002; Fatica, 2010).

Partial acquisitions allow residual ownership by some important existing shareholders or managers (e.g. through stock-options) who can continue to provide much needed resources and know-how to the ongoing concern. For example, they might have unique strategic planning and governance know-how related to building and maintaining the technological capabilities of their companies (Baysinger et al., 1991). In particular, local knowledge is highly embodied in local

human resources (Chen, Li and Shapiro, 2011), the management practices of which are by and large shaped by strong local forces. As such, a full or majority owned takeover could have ruinous effects on the original coalition of resource providers when the main aim of the acquiring firm is exploration and learning. The targeted knowledge is largely tacit in nature and hence difficult to assess and access. It is challenging to identify and collect promising sources of knowledge, put them into an adequate context and act accordingly, if linguistic, cultural and social barriers cause misinterpretations, mistakes and delays. These obstacles are especially pronounced when foreign firms search for valuable sources of innovation abroad (Al-Laham and Amburgey, 2005). When MNEs invest in foreign markets not to capitalize on existing competitive advantages but to create assets, failures in input factor markets in the host country may lead MNEs to form joint ventures with local firms.

As such, it is suggested that firms that are more interested in exploring new technologies will be more inclined to have partial ownership. Instead, firms more interested in exploiting existing capabilities will be more likely to prefer majority control. Besides, negotiations with local partners in pooling complementary capabilities through joint ventures are time-consuming and require management capabilities and experience.

As EMFs are usually laggards relative to advanced country competitors in resources, such as technology and brands, they are more likely to fully take over firms to compensate for difficulties in mobilizing local specific knowledge (Makino and Delios, 1996). Specifically, an EMF prefers wholly owned subsidiaries when it adopts a global strategy, faces severe industry competition and emphasizes asset-seeking purposes in its FDI (Cui and Jiang, 2009). It is further argued that a firm at an apparent disadvantage in an industry would conduct full acquisitions in the home nation of a firm with an apparent advantage in the industry, so as to reduce their gap by fully acquiring needed resources (Makino et al., 2002).

Additionally, Cui et al. (2011) suggest that foreign industries, especially those of developed economies, exhibit learning opportunities of advanced technology, high-value brand assets, and tacit management know-how. Such factor conditions have a pull effect on emerging-market firms seeking complementary assets and capabilities overseas (Luo and Tung, 2007; Yamakawa et al., 2008). Thus, EMFs' decision and strategy are largely influenced by the strategic intent of asset seeking (Child and Rodrigues, 2005; Deng, 2009). Therefore, when the FDI of an EMF is

pulled by the learning opportunities in the host industry, the firm will prefer a WOS entry mode to fully capture those opportunities (Kim and Hwang, 1992).

Accordingly, it is suggested here that EMFs would prefer more control of targets in more competitive industries. Namely, our first hypothesis is the following:

> **Hypothesis 1**: *EMFs will prefer more control when entering competitive industries/accessing local competences.*

Furthermore, full or majority ownership entry is generally preferred over joint or minority ownership by parent firms that have high external uncertainty due, for instance, to high cultural and institutional distance (Zhao et al., 2004). In other words, if the institutional environment in the home country and host country is similar, MNCs will feel a sense of familiarity with the institutional environment in the host country (Chiao et al., 2009). On the contrary, country differences are viewed as a barrier to obtaining local knowledge, making it difficult for the MNE to manage its foreign subsidiaries on its own or to enlist the help of a local partner efficiently (Xu and Shenkar, 2002; Hennart and Larimo, 1998).

Institutional theory studies find that firms choose modes of entry to conform to local legitimacy, such as rules of doing business, in host countries (Meyer and Nguyen, 2005; Uhlenbruck, Rodriguez, Doh, and Eden, 2006). Nevertheless, there is not a unanimous consensus concerning the effect of institutional distance on the entry mode. On the one hand, for a MNE parent the different institutional environment surrounding its subsidiaries represents an impediment to the transfer of intra-organizational practices (Kostova and Zaheer, 1999) and this encourages full ownership and greater control in order to raise the power of the parent as perceived by its subsidiaries (Xu and Shenkar, 2002). On the other hand, the organizational legitimacy perspective argues that in a very unfamiliar environment, MNEs from more dissimilar institutional environments tend to share ownership with a local partner in exchange for adaptation to the external environment (Zaheer, 1995).

Thus, when entering a foreign market, especially if institutional distance is high, entrants often need local resources such as institutional or market knowledge that is embedded in existing

organizations (Meyer and Estrin, 2001; Anand and Delios 2002) and these can be accessed by forming a partnership with a local firm. However, traditional measures consider the magnitude of distance, and they are normally applied to AMFs investing in emerging or less developed countries (e.g. Meyer et al., 2009a). In those cases, large institutional distances might constitute a barrier to transferring organizational practices from the parent firm to the foreign subsidiary (Kostova, 1999).

Here, we investigate the opposite situation, i.e. EMFs investing in advanced countries. Therefore, as it does not matter only *how much* countries differ but also *how*, the direction of distance becomes crucial (Zaheer et al., 2012). Namely, as EMFs come from countries that systematically lag behind on the several dimensions of institutional distance, they do not face the same uncertainty and risks of AMFs investing the other way round (even if the distance would assume the same numerical value). Thus, contrary to previous evidence about the impact of institutional distance on the MNC entry mode choice, we expect that EMFs investing in developed countries do not need to rely on a local partner to reduce uncertainty, and are more likely to adopt more control. Hence, our second hypothesis is the following:

Hypothesis 2: *EMFs will prefer more control when institutional distance increases*

3. Data and methodology

3.1.The sample

Our hypotheses have been tested on a sample of 438 acquisitions undertaken by foreign MNEs in Italy between 2001 and 2010 in 78 manufacturing industries (from NACE three digit Rev.1 151 to NACE three digit Rev.1 366)[i]. Data come from the dataset Reprint[ii], a database compiled by the Politecnico di Milano and sponsored by the Italian National Institute for Foreign Trade (ICE – Istituto per il commercio con l'estero). The database provides information about both the acquiring and target firms, the ownership structure, the entry mode and other balance sheet data. After applying the International Monetary Fund[iii] classification to the home country of the acquiring firms, it turns out that 88 out of 438 (20.09%) investments have been undertaken by MNEs whose country is qualified as emerging.

Dependent variable *(Degree of Ownership)*

We refer to the ownership structure as to the share of the equity owned by the MNEs after the acquisition. Following Chari and Chang (2009), we identified four different types of ownership: full, majority, equal, and minority ownership. Accordingly, we build a categorical variable, i.e. *Degree of Ownership*, taking value k=0,1,2,3, for minority, equal, majority and full ownership, respectively. As a consequence, the higher the value of the dependent variable, the higher is the degree of ownership and control in the target company.

Table 1 shows the distribution of acquisitions across the four degrees of ownership considered, distinguishing also between MNEs from emerging vs. advanced countries. It can be noticed that full ownership is in general the favorite choice. However, while the percentage of AMFs adopting full ownerships is around 70%, the same value decrease to 50% in case of EMFs, thus revealing that the latter tend to choose partnerships more frequently than the former.

(Table 1 goes about here)

3.2.Explanatory variables

Competitiveness of target firm' industries

In order to account for the competitiveness of Italian industries, we employed an indicator that has been originally suggested by Balassa (1965) and that is very popular among international trade economists, i.e. the Revealed Comparative Advantage (RCA). RCA index is defined as follows:

$RCA_{ij} = (X_{ij}/\Sigma_j X_{ij})/(\Sigma_i X_{ij}/\Sigma_{ij} X_{ij})$

where X_{ij} are exports in sector i from country j.

The numerator and denominator represent the share of a given sector *i* in national exports, and in world exports, respectively. Accordingly, a high index (typically above 1) implies that, given a sector, the national export share is higher than the world export share. As a consequence, that industry can be considered competitive in that country.

To compute the RCA we employed data from the Italian National Institute for Foreign Trade at three digit level manufacturing industries. The RCA has been computed, for each of the 438 observations, as the average value of the five years before that of the investments. This means that the average values have been computed along a range spanning from 1996-2000 for

investments occurred in 2001, to 2005-2009 for investment occurred in 2010. Considering the average value calculated upon 5 years allows us to control for fluctuations of international and national economy and to provide a more robust measure of competitiveness of the Italian industries. The highest RCAs refer to those traditional industries (e.g. house building materials and furniture; leather, textiles and clothing; machine tools and other machinery) that are internationally known as "made in Italy" (De Benedictis, 2005), while the lowest RCA refer to those high-tech sectors (e.g. electronics and electronic instruments, computers, communication equipment, basic chemicals, aerospace) that typically lag behind in Italy. According to our first hypothesis we expect a positive relationship between *Competitiveness* and the EMFs' degree of ownership.

Institutional Distance Variables

Institutional distance between each home country and Italy has been accounted for by focusing on the market-related dimension of institutions, which is likely to be the most important determinant of the attractiveness of a country for a foreign firm interested in doing business. Specifically, we employed 9 out of the 10 items of the *economic freedom* index developed by the Heritage Foundation in partnership with the Wall Street Journal (Kane, Holmes, and O'Grady, 2007)[iv], namely: business freedom, trade freedom, fiscal freedom, government spending, monetary freedom, investment freedom, financial freedom, property rights and freedom from corruption.[v] Each item provides a score between 0 and 100 for each of the 184 countries available in the database from 1995 to 2012. We computed the distance between each home country and Italy both with respect to each single item and by employing a compound index which gather all the items and which has been named *Institutional Distance*.

The *Institutional Distance* compound index has been computed by employing the Kogut and Singh (1988) formula that is typically used to gauge the cultural distance. We computed the *Institutional Distance* between the home country of each observation and Italy for each available year according to the following formula:

$$ID_j = \left[\sum_{i=1}^{9} (I_{ij} - I_{ik})^2 / V_i \right] / 9,$$

where ID_j is the Institutional Distance for the *j*th country, I_{ij} is the Heritage score of the *i*th item for the *j*th country, *k* is Italy and V_i is the variance of the *i*th score. Following the same rationale

of RCA, we finally computed, for each observation, the average value of the Institutional Distance for the five years before that of the investment, in order to control for possible fluctuations. The distance with respect to each item has been computed according to the same procedure, of course without applying the sum and the denominator in the formula.

Table 2 provides the list of the ten institutional distance variables employed in the analysis, including the compound index. For each variable we reported the description of the item that has been employed to compute the distance, the average value of the items for Italy, EMFs and AMFs between 2001 and 2010 and the average distance between EMFs and Italy, on the one hand, and between AMFs and Italy, on the other hand. The distance variables have been grouped in four broad categories that are suggested by the Heritage Index, i.e. Rule of law, Limited Government, Regulatory efficiency and Open markets. It can be noticed that the compound index, which is reported at the bottom of the table, shows that, as expected, Italy is on average much closer to advanced than to emerging countries. This picture arises also from the other nine distance variables, which nearly always show that Italy is closer to advanced than to emerging countries, with the noticeable exception of Freedom From Corruption with respect to which Italy is closer to emerging than to advanced economies. As regards the scores, Italy is placed nearly always above the emerging countries and below the advanced economies, with the exception of Fiscal Freedom and Government Spending whose scores are below the value of both advanced and emerging economies.

According to our second hypothesis, we expect a positive relationship between institutional distance and the EMFs' higher degree of control.

3.3.Control variables

Target company level

Size (Size)

Large target firms imply larger financing constraint for the acquirer, which hence may prefer minority acquisitions (Whited, 2006). This choice is also driven by the possibility to reduce risks and costs that arise from acquisition of large firms, which imply more irreversible investments (Balakrishnan & Koza, 1993). A gradual approach allows, indeed, reacting more rapidly to market changes and implementing more easily the exit strategy if needed (Folta, 1998, Tse et al., 1997). Furthermore, a partial acquisition represents the starting point to gradually increase the

equity share and to complete the acquisition if desired by the firm (Folta, 1998; Kogut, 1991). As a consequence, we expect a negative relationship between the degree of ownership and the size. Data on the size of the target company come from Reprint Database, and refer to the number of employees (as at the year of acquisition).

Target Company High-Tech Industries

We control for the technology intensity of the industry of the target firms to assess whether the ownership strategy of EMFs and AMFs is different when they enter high-tech industries rather than competitive industries. Indeed, while the latter rely mainly on traditional sectors where Italian firms can offer knowledge and competences, the former refer to high-tech industries where, on average, Italian firms lag behind with respect to foreign competitors. As a consequence, we expect an opposite behavior with respect to competitive industries as regards the ownership strategy. Specifically, it is likely that, at least as far as AMFs are concerned, the high-tech industries will be subject more to full rather than to partial acquisitions. A different output may derive from EMFs, which are likely, on average, to lag behind Italian firms also in high-tech industries.

In order to account for the technology intensity of target firms' industries, we employed a dummy taking value of 1 when the industry of the target firm is classified as high-tech or medium-high-tech according to the Eurostat-OECD (2007) classification.[vi] Table 2 shows the distribution of the 438 foreign direct investments between high-tech and non-high-tech target firms' industries and across the four degrees of ownership for EMFs, for AMFs and for the whole sample. It can be noticed that foreign direct investments are directed more to non high-tech than to high-tech industries in all group of MFs. However, EMFs seem to slightly prefer full ownership in non high-tech compared to high-tech industries (51.92% and 47.22%, respectively), while the opposite is true as regards advanced MNEs, which tend to adopt a full ownership more in high-tech than in non high-tech sectors (72.55% and 67.51%, respectively).

(Table 2 goes about here)

Parent company level

Parent Company High-Tech Industries

Studies adopting RBV find that firms that possess more advantageous capabilities (e.g., knowledge, experience) are more likely to choose full control of foreign subsidiaries (Erramilli, 1991). Multinationals with higher R&D intensity and asset specificity, such as tacit know-how, tend, indeed, to prefer full or majority ownership entry over joint or minority ownership of their foreign subsidiaries (Zhao et al., 2004; Brouthers and Hennart, 2007). Findings, in general, are that MNCs are more likely to get majority share when they possess certain assets that are needed by the host countries, such as technology or links with global networks (Blodgett, 1991). Therefore, we control for the technological intensity of the parent company's industry through a dummy variable, *Parent Tech,* taking value of 1 if the parent company operates in a high- or medium-tech industry according to the Eurostat-OECD (2007). Table 3 shows the distribution of the 438 acquisitions between high and non high-tech industries and across the four degree of ownership for emerging MNEs, advanced MNEs and for the whole sample. EMFs adopting the full ownership strategy are equally distributed between non high- and high-tech industries, while high-tech AMFs seems to prefer full ownership much more than non high-tech AMFs (77.47% vs. 61.31%).

(Table 4 goes about here)

Experience (Experience)

Some empirical studies support the notion that less experienced foreign investors prefer shared ownership (Meyer, 2001), while others (e.g. Barkema and Vermeulen, 1998) found no direct link between international experience and the propensity to choose full acquisition over partial acquisition. For firms that have already established operations in a country, any new acquisition would aim to extend the existing operations, for instance, by increasing market share or by deepening the local supply chain. Therefore, one would expect more control to be important in order to allow for the necessary restructuring/alignment. Internationally experienced firms are more capable of committing resources in acquisitions and operating alone. Small-sized and inexperienced firms often have a need to augment their capability by that of another firm which correspondingly faces capability constraints (Madhok, 1998). Equity ownership is seen as an outcome of negotiation, a representation of relative power between participating interests. Participants gain power from their commitment of various resources, such as technology,

marketing expertise, access to financial markets, and geographical or industrial experience. Therefore we expect a positive correlation between experience and the degree of ownership.

Experience of multinational firms in the local context has been measured through the variable *Local Experience*, a dummy taking value of 1 if the companies have already undertaken at least one previous investment in Italy, and 0 otherwise. Data on previous local experience come from the database Reprint. Table 5 reports the number of experienced and inexperienced EMFs and AMFs for each degree of ownership, thus showing that the former are, as expected, much more inexperienced than AMFs.

(Table 5 goes about here)

Finally, we controlled for fixed-effects that may arise from the economic cycle by introducing nine dummy variables (*year_2001* to *year_2009*), thus using year 2010 as benchmark.

3.4 Model and methodology

To test our hypotheses, we employed the following equation model:

$$Degree\ of\ Ownership_i = \beta_0 + \beta_1 Competitiveness_i + \beta_2 Distance_i + \beta_3 Controls + \varepsilon_i$$

where i=1, 2,…438 are the deals; *Degree of Ownership* is the dependent variable; *Competitiveness* is the measure of the competitiveness of the target firm' industry, *Distance* is one of the 10 measures of institutional distances described in previous section, *Controls* are the control variables described above, and ε is the error term. The equation has been tested separately for EMFs and for AMFs, thus giving birth to two models of 88 and 350 observations, respectively.

Given the nature of our dependent variable, we employed a robust ordered probit econometric model, which allows controlling for the heteroskedasticity of the sample that derives from the variety of target and acquiring firms' industries and of parent firms' home countries.

Table 6a and 6b provide the correlation matrix and descriptive statistics of the dependent and explanatory variables for the EMFs and AMFs equation models, respectively.

(Tables 6a and 6b goes about here)

4. Econometric findings

Table 7a and Table 7b show the estimated coefficients of the ordered probit models applied to EMFs and AMFs, respectively.

First of all, it is worth observing that *Competitiveness* exhibits a positive and significant correlation with *Degree of Ownership* (at $p < 0.01$) in Table 7a for EMFs, while a negative and significant correlation for AMFs (at $p < 0.01$, see Table 7b), thus providing evidence for Hypothesis 1.

This result confirms that, when the target firms operate in industries where the host country has accumulated distinctive resources, so that opportunities to learn and to explore new competences are high, EMFs prefer to adopt higher control and ownership in order to entirely capture local competencies without the burden of managing the local partnership; conversely, AMFs prefer lower ownership mode in order to maximize the likelihood of preserving and accessing the local assets embodied in the target company.

As far as the role of institutional distance, our results confirm that the aggregate index does not provide any relevant evidence: in fact, the variable *Institutional Distance* does not come out significant neither in Table 7a (i.e. for EMFs) nor in Table 7b (i.e. for AMFs).

Instead, some interesting results seem to emerge when adopting the single dimensions directly in the regression models. Namely, property rights and investment freedom distances exhibit a positive correlation with the dependent variable (at $p<0.01$ in table 7a and at $p<0.05$ in table 7b, respectively). These two items reflect two very critical aspects of the emerging countries economy, i.e. the weak intellectual property regime and market-based economy. Indeed, on the one hand, when EMFs invest in advanced countries, they take advantage of the stronger intellectual property regime by adopting a full ownership strategy in order to acquire intangible assets that would be more difficult to develop in their home country due to the limits in knowledge appropriation. On the other hand, EMFs take advantage of the transparency and freedom of advanced countries' market-based economy to undertake full acquisitions that would be subject to more controls and limitations in their home country due to a higher state control (especially in Russia and China).

As regards AMFs, we find a very weak positive correlation with respect to property right distance and government spending distance ($p<0.10$). Conversely, trade freedom distance shows a strong negative correlation ($p<0.05$) with the dependent variable, thus confirming the finding of organizational legitimacy perspective, according to which MNEs from dissimilar institutional environments prefer a partial ownership strategy in order to ensure a better adaptation in the external environment (Zaheer, 1995).

Concerning control variables, our econometric findings confirm only in one case (column 2 in table 7a) that high-tech parent company prefer a full acquisition to avoid dispersion of knowledge that may arise from a partial acquisition ($p<0.10$). Conversely, when the target firm is high-tech, EMFs prefer partial acquisition ($p<0.10$). Unlike competitive industries, where the type of knowledge is less technology-intensive, high tech-industries require high absorption capacities that EMFs on average do not possess. Partial acquisitions allow EMFs not only to acquire knowledge but also to develop the absorption capacities by interacting with the local partner.

As regards the size, as expected the larger the target firm the more is the probability to undertake partial acquisitions, even if this variable is relevant only for AMFs.

Finally, as far as multinationals' previous experience in the host country, our results show a lack of significance. However, this is quite in line with the uncertain findings put forward in the literature so far. In fact, some empirical studies support the notion that less experienced foreign investors prefer shared ownership (Meyer, 2001), while others (e.g. Barkema and Vermeulen, 1998) found no direct link between international experience and the propensity to choose full acquisition over partial acquisition. Besides, for firms that have already established operations in a country, any new acquisition would aim to extend the existing operations, for instance, by increasing market share or by deepening the local supply chain. Therefore, one would expect more control to be important in order to allow for the necessary restructuring/alignment (Kogut and Singh, 1988).

5. Discussion and conclusion

This article is about foreign multinationals acquiring firms in advanced economies. In particular, it has examined the acquisition behavior of emerging market firms compared to advanced market firms in Italy.

The growing importance of asset-seeking investments suggests that advanced countries have grown in importance as destination; especially for emerging markets' firms, given that more advanced economies have more to offer in terms of technologies, capabilities and managerial skills (Dunning et al., 1998). The transition of a number of emerging economies from a phase of adaptive R&D based on imported technologies in the past to the accumulation of indigenous innovative capabilities has its limitations as much of these innovative activities centered more on process developments than expanding product development capabilities (Pradhan, 2011). In fact, the recent boom in overseas acquisitions by these firms in advanced countries partially represents their strategic motivation for acquiring new products, skills and technologies to overcome their existing inadequate product development capabilities. The relative disadvantages of EMFs are precisely the propellers of FDI, seen as an effective mean to equip firms with the competitive strength that they lack. In the case of EMFs, it is worth noticing the importance of acquisitions as a route towards international markets, as these lend the fastest access to markets, technology, R&D skills and international brands.

Previous theoretical and empirical research has shown that, when acquiring a foreign company, a MNE wishing to avoid the dispersion of the bundle of information and knowledge residing in the target company is more likely to preserve the value of the target firm's resources by undertaking a partial (rather than a complete) acquisition. This is particularly true when MNEs adopt competence exploring strategies, and they experience important opportunities to learn from local target companies. Within this context, the degree of ownership and control that foreign MNEs maintain on the local target firm becomes a crucial dimension (Brown et al., 2003; Shrader, 2001). As such, the current analysis focuses upon the ownership and control decision of EMFs and AMFs in their acquisition behavior of Italian firms in traditionally competitive industries. Such foreign acquisitions by emerging market firms with weak product development capabilities are likely to be for accessing new products, technologies, brands and skills needed for facing immediate market competition, besides accessing new markets.

Our analysis thereby demonstrates that EMFs adopt a different entry strategy from that of Advanced Market Firms, even when they are driven by similar motivations. As such, the results show that EMFs prefer a higher ownership percentage as compared to AMFs that do indeed prefer lower ownership control when investing in particularly competitive industries.

EMFs prefer more control over asset-seeking acquisitions as they lack the needed experience to deal with the relevant complexity of managing partnerships. Hence, EMFs are more likely to prefer a greater degree of ownership and control in the local target company.

Although these EMFs seem to increasingly acquire firms in technologically advanced countries, this does not automatically imply the active augmentation of existing ownership advantages through reverse transfers of R&D. These firms may make strategic investments that may provide no discernible economic contribution to the MNE as a whole, besides their long term market positioning, through M&A (Narula and Dunning, 2009).

However, despite their clear preference for more ownership, research has shown that they have allowed the acquisitions to remain separate organizations, and have given them almost complete operational freedom even when they are in the same or related businesses. They assume that incumbent teams know their customers, organizations, and rivals best. This entails keeping an acquisition structurally separate and maintaining its own identity and organization. The acquirers retain the senior executives, particularly the CEOs, of the corporations they buy and give them the same power and autonomy they used to enjoy (Kale, Sing and Raman, 2009).

So despite their preference for more control, most emerging multinationals do everything they can to keep top teams intact. That, they believe, shows the buyer's confidence in the company, its strategy, and the quality of its talent. This approach is becoming a hallmark of EMFs' reverse takeovers, even helping emerging giants win takeover battles, as target firms can benefit from the higher financial input while retaining the necessary strategic leeway. It also dispels any notion that poor performance in some way led to the takeover. As a result, the acquirers don't lose human and social capital or the team's industry- and company-specific knowledge; in fact, they can harness all that for the benefit of both parties.

As far as institutional distance is concerned, although several studies have already complemented TCE and RBV variables with institutional variables (Brouthers and Brouthers, 2000; Meyer,

2001, Meyer and Nguyen, 2005), only few have acknowledged and captured the complexity of the constructs (Meyer et al., 2009a; Zaheer et al., 2012). Our results show indeed that complex indexes of institutional distance may hinder those sources of societal difference that actually impact MNCs' entry mode choice. Additionally, EMFs experience a higher propensity to control the local partner the higher the institutional distance in terms of property rights and investment freedom with the host country. In fact, as EMFs investing in advanced countries enjoy a better institutional environment there, they are less likely to need a local partner (to reduce the relevant uncertainty).

TABLES

Table 1: Degree of ownership of the 438 foreign direct investments by MNEs' home country.

Degree of Ownership	**EMFs**	**AMFs**	**Total**
Minority ownership	11	48	59
%	12.50	13.71	13.47
Equal Ownership	13	9	22
%	14.77	2.57	5.02
Majority ownership	20	49	69
%	22.73	14.00	15.75
Full ownership	44	244	288
%	50.00	69.71	65.75
Total	**88**	**350**	**438**

Table 2: List and values of the institutional distance variables with description of the related items

Variable of Distance	Description of the item employed in the index	Average Score of the Item for Italy (2001-2010)	Average Score of the Item for EMFs (2001-2010)	Average Score of the Item for AMFs (2001-2010)	Average distance between EMFs and Italy	Average distance between AMFs and Italy
Institutional Distance	Compound index of all items	-	-	-	2.137	0.739
		Rule of law				
Property Rights	The extent to which private property rights are recognized and protected by rule of law	60.500	50.760	84.130	1.106	0.869
Freedom from Corruption	Openness in regulatory procedures and processes that ensure transparencies and promote equitable treatment and greater regulatory efficiency and speed.	50.000	44.020	78.540	0.749	1.750
		Limited government				
Fiscal Freedom	The extent to which individuals and businesses are permitted by government to keep and control their income and wealth for their own benefit and use	51.250	79.110	59.500	1.312	1.168
Government spending	The extent to which government spending is excessive and generate high levels of public debt that undermine economic freedom and stifle growth.	29.610	69.300	44.190	4.258	1.161
		Regulatory efficiency				
Business Freedom	The extent to which individuals are able to establish and run an enterprise without interference (e.g. burdensome and redundant regulations) from the state.	73.900	67.070	82.350	1.462	0.554
Monetary Freedom	The extent to which the economy can rely on a stable currency, market-determined prices, low inflation and independent central bank	83.230	75.860	84.140	0.879	0.037

(continue)

Variable of Distance	Description of the item employed in the index	Average Value of the Item for Italy (2001-2010)	Average Value of the Item for EMFs (2001-2010)	Average Value of the Item for AMFs (2001-2010)	Average distance between EMFs and Italy (2001-2010)	Average distance between AMFs and Italy (2001-2010)
		Open Markets				
Trade Freedom	Economy's openness to the import of goods and services from around the world and citizen's ability to interact freely as buyer or seller in the international marketplace without trade restrictions such as tariffs, export taxes, trade quotas, or outright trade bans	81.230	71.190	82.030	3.518	0.025
Investment Freedom	The extent to which the economic environment is characterized by transparency and equity and provides maximum entrepreneurial opportunities and incentives for expanded economic activity, greater productivity and job creation, without restrictions on the movement of capital	70.500	49.740	73.310	2.267	0.411
Financial Freedom	The extent to which financial and banking systems are transparent, open and efficient,	64.000	50.000	70.810	2.083	0.828

Table 3: Degree of ownership of the 438 foreign direct investments by technology intensity of target firm's industry and by MNEs' home country.

	EMFs		AMFs		Total	
Degree of Ownership	**Target Non High-Tech**	**Target High Tech**	**Target Non High-Tech**	**Target High Tech**	**Target Non High-Tech**	**Target High Tech**
Minority ownership	5	6	35	13	40	19
%	9.62	16.67	17.77	8.50	16.06	10.05
Equal Ownership	9	4	1	8	10	12
%	17.31	11.11	0.51	5.23	4.02	6.35
Majority ownership	11	9	28	21	39	30
%	21.15	25.00	14.21	13.73	15.66	15.87
Full ownership	27	17	133	111	160	128
%	51.92	47.22	67.51	72.55	64.26	67.72
Total	**52**	**36**	**197**	**153**	**249**	**189**

Table 4: Degree of ownership of the 438 foreign direct investments by technology intensity of parent firm's industry and by MFs' home country.

	EMFs		AMFs		Total	
Degree of Ownership	**Parent Non High-Tech**	**Parent High Tech**	**Parent Non High-Tech**	**Parent High Tech**	**Parent Non High-Tech**	**Parent High Tech**
Minority ownership	6	5	34	14	40	19
%	13.64	11.36	20.24	7.69	18.87	8.41
Equal Ownership	5	8	3	6	8	14
%	11.36	18.18	1.79	3.30	3.77	6.19
Majority ownership	11	9	28	21	39	30
%	25.00	20.45	16.67	11.54	18.40	13.27
Full ownership	22	22	103	141	125	163
%	50.00	50.00	61.31	77.47	58.96	72.12
Total	**44**	**44**	**168**	**182**	**212**	**226**

Table 5: Degree of ownership of the 438 foreign direct investments by local experience of parent firm's industry and by MFs' home country.

	EMFs		AMFs		Total	
Degree of Ownership	**Without Local Experience**	**With Local Experience**	**Without Local Experience**	**With Local Experience**	**Without Local Experience**	**With Local Experience**
Minority ownership	8	3	9	39	17	42
%	12.90	11.54	8.82	15.73	10.37	15.33
Equal Ownership	5	8	3	6	8	14
%	8.06	30.77	2.94	2.42	4.88	5.11
Majority ownership	16	4	14	35	30	39
%	25.81	15.38	13.73	14.11	18.29	14.23
Full ownership	33	11	76	168	109	179
%	53.23	42.31	74.51	67.74	66.46	65.33
Total	**62**	**26**	**102**	**248**	**164**	**274**

Table 6a: Descriptive statistics and correlation matrix of the variables employed in the EMFs' equation model

		1)	2)	3)	4)	5)	6)	7)	8)	9)	10)	11)	12)	13)	14)	15)	16)
1)	Degree of Ownership	1.0000															
2)	Competitiveness	0.4110	1.0000														
3)	Institutional Distance	0.1817	0.1967	1.0000													
4)	Property Rights	0.2560	0.1272	0.3317	1.0000												
5)	Freedom from Corruption	0.0571	0.0530	0.6372	0.2004	1.0000											
6)	Fiscal Freedom	-0.1258	-0.1640	0.2979	-0.1069	0.4827	1.0000										
7)	Government Spending	0.1392	0.2087	0.3376	0.3799	-0.0961	-0.2946	1.0000									
8)	Business Freedom	0.1085	0.1235	0.4807	0.1869	0.3387	-0.0163	0.5294	1.0000								
9)	Monetary Freedom	0.0101	-0.0007	0.0941	0.2482	0.2310	0.1829	-0.4621	-0.1883	1.0000							
10)	Trade Freedom	0.1009	0.1805	0.5541	-0.2913	0.2515	-0.1918	0.0252	0.1623	-0.1815	1.0000						
11)	Investment Freedom	0.1647	0.1152	0.3219	0.5771	-0.0360	-0.0846	0.4879	0.3498	-0.1732	-0.1903	1.0000					
12)	Financial Freedom	0.2400	0.2176	0.8047	0.4697	0.3491	0.0198	0.2314	0.2178	0.1595	0.4742	0.4140	1.0000				
13)	Size	-0.2005	-0.2539	0.0276	0.0244	0.1459	0.3308	-0.2793	-0.1054	0.2264	-0.1154	-0.0573	0.0349	1.0000			
14)	Target Tech	-0.0581	-0.0225	0.0984	0.1366	0.0199	0.0004	0.1994	0.0854	-0.0064	-0.0619	0.0770	0.0733	-0.0812	1.0000		
15)	Parent Tech	-0.0107	0.0708	0.0677	0.0585	-0.0974	-0.3041	0.4038	0.2914	-0.2804	0.0848	0.1699	0.0424	-0.1552	0.5085	1.0000	
16)	Local Experience	-0.1322	-0.0713	-0.0087	-0.3190	0.0327	0.1195	0.0145	0.1157	-0.2398	0.1421	-0.2276	-0.2542	-0.0205	-0.0322	0.0498	1.0000
	Obs.	88	88	88	88	88	88	88	88	88	88	88	88	88	88	88	88
	Mean	2.1023	1.7601	2.1366	1.1064	0.7494	3.6049	4.2580	1.4620	0.8792	3.5183	2.2669	2.0827	205.5227	0.4091	0.5000	0.2955
	Std. Dev.	1.0725	0.8148	0.6492	0.8753	0.4388	2.8123	2.0673	0.8504	1.4843	4.1322	1.4452	0.9736	382.5616	0.4945	0.5029	0.4589
	Min	0.0000	0.1060	0.2913	0.0087	0.0139	0.2970	0.0803	0.0000	0.0100	0.0012	0.0000	0.1606	1.0000	0.0000	0.0000	0.0000
	Max	3.0000	3.5180	3.3647	2.8839	1.9196	11.5455	8.7487	4.8919	7.8693	13.1374	4.4232	3.7361	2707.0000	1.0000	1.0000	1.0000

Table 6b: Descriptive statistics and correlation matrix of the variables employed in the AMFs' equation model

		1)	2)	3)	4)	5)	6)	7)	8)	9)	10)	11)	12)	13)	14)	15)	16)
1)	Degree of Ownership	1.0000															
2)	Competitiveness	-0.1708	1.0000														
3)	Institutional Distance	0.1673	-0.1721	1.0000													
4)	Property Rights	0.2628	-0.2252	0.6613	1.0000												
5)	Freedom from Corruption	0.0355	-0.2122	0.4829	0.3387	1.0000											
6)	Fiscal Freedom	0.0601	-0.0685	0.7216	0.2840	0.2527	1.0000										
7)	Government Spending	0.1125	-0.1193	0.6604	0.2152	0.0340	0.5271	1.0000									
8)	Business Freedom	0.0744	-0.1292	0.6111	0.2093	0.1158	0.2412	0.5695	1.0000								
9)	Monetary Freedom	0.0404	0.0591	0.2254	0.1559	0.2258	0.3419	0.0155	-0.2057	1.0000							
10)	Trade Freedom	-0.0245	-0.0156	0.2973	0.4019	0.1105	0.2960	0.1913	-0.0867	0.2085	1.0000						
11)	Investment Freedom	-0.0788	0.3295	-0.3330	-0.2115	-0.2798	-0.3011	-0.5263	-0.2693	0.0318	-0.2063	1.0000					
12)	Financial Freedom	0.0835	0.1367	0.3376	0.3275	-0.0905	0.1658	-0.0353	0.1857	0.1252	0.0376	0.1775	1.0000				
13)	Size	-0.1027	-0.1078	0.0348	0.0385	0.0431	0.0204	0.0278	0.0588	-0.0463	0.0221	-0.1013	-0.0169	1.0000			
14)	Target Tech	0.0886	-0.5081	0.0765	0.1332	-0.0820	0.0411	0.0989	0.1125	-0.1002	0.0266	-0.1716	0.0020	0.1064	1.0000		
15)	Parent Tech	0.1881	-0.3633	0.0932	0.2551	-0.0427	0.0284	0.0066	0.0902	-0.0448	0.0773	-0.1132	0.0925	0.1110	0.4317	1.0000	
16)	Local Experience	-0.0863	0.1377	-0.0581	-0.0265	0.0392	-0.0942	-0.1558	-0.0915	0.0129	-0.1028	0.2103	0.1258	0.0397	-0.0939	-0.0247	1.0000
	Obs.	350	350	350	350	350	350	350	350	350	350	350	350	350	350	350	350
	Mean	2.3971	1.3908	0.7391	0.8695	1.7504	0.9275	1.1609	0.5544	0.0367	0.0247	0.4108	0.8276	129.9514	0.4371	0.5200	0.7086
	Std. Dev.	1.0568	0.9604	0.2985	0.6896	1.0094	0.9472	1.0638	0.6003	0.0432	0.0472	0.4466	0.4838	362.9756	0.4967	0.5003	0.4551
	Min	0.0000	0.0400	0.1695	0.0000	0.1125	0.0158	0.0074	0.0000	0.0012	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000	0.0000
	Max	3.0000	7.5100	2.5297	2.6015	4.4812	6.4869	6.7261	4.1112	0.3276	0.6624	1.1058	2.6887	4740.0000	1.0000	1.0000	1.0000

Table 7a: Results of the robust Ordered Probit model applied to EMFs' sample – Institutional distance (1), property right distance (2), freedom from corruption distance (3), fiscal freedom distance (4) and global spending distance (5).

	(1)	(2)	(3)	(4)	(5)
Competitiveness	0.527***	0.563***	0.564***	0.562***	0.539***
	(2.95)	(3.15)	(3.26)	(3.25)	(3.05)
Institutional distance	0.234				
	(0.87)				
Institutional distance Items:					
Property Rights		0.530***			
		(2.73)			
Freedom from corruption			0.012		
			(0.04)		
Fiscal Freedom				-0.024	
				(-0.42)	
Government Spending					0.132
					(1.64)
Size	-0.081	-0.068	-0.069	-0.055	-0.029
	(-0.91)	(-0.87)	(-0.80)	(-0.65)	(-0.35)
Target Tech	-0.435	-0.516*	-0.421	-0.401	-0.489
	(-1.46)	(-1.68)	(-1.43)	(-1.36)	(-1.62)
Parent Tech	0.424	0.534*	0.454	0.415	0.369
	(1.34)	(1.69)	(1.44)	(1.30)	(1.16)
Local Experience	-0.167	0.271	-0.154	-0.121	-0.016
	(-0.54)	(0.77)	(-0.50)	(-0.38)	(-0.05)
Time Dummies	yes	yes	yes	yes	yes
Constant cut1	-1.093	-1.265*	-1.317*	-1.406*	-0.958
	(-1.46)	(-1.81)	(-1.84)	(-1.86)	(-1.22)
Constant cut2	-0.315	-0.449	-0.545	-0.632	-0.178
	(-0.42)	(-0.65)	(-0.77)	(-0.85)	(-0.23)
Constant cut3	0.450	0.358	0.212	0.126	0.601
	(0.59)	(0.51)	(0.30)	(0.17)	(0.76)
N. of observations	88.000	88.000	88.000	88.000	88.000
Chi2	426.963	399.748	436.081	440.955	435.975
P>Chi2	0.000	0.000	0.000	0.000	0.000

* p<0.1, ** p<0.05, *** p<0.01. Marginal effects are available upon request.

Table 7b: Results of the robust Ordered Probit model applied to EMFs' sample – Business Freedom Distance (6), Monetary Freedom Distance (7), Trade Freedom Distance (8), Investment Freedom Distance (9) and Financial freedom distance (10).

	(6)	(7)	(8)	(9)	(10)
Competitiveness	0.538***	0.565***	0.586***	0.559***	0.518***
	(3.06)	(3.26)	(3.32)	(3.29)	(2.96)
Institutional distance items:					
Business Freedom	0.194				
	(1.15)				
Monetary Freedom		-0.032			
		(-0.25)			
Trade Freedom			-0.021		
			(-0.59)		
Investment Freedom				0.228**	
				(2.21)	
Financial Freedom					0.300
					(1.47)
Size	-0.069	-0.064	-0.068	-0.058	-0.083
	(-0.79)	(-0.70)	(-0.76)	(-0.66)	(-0.97)
Target Tech	-0.421	-0.415	-0.449	-0.468	-0.439
	(-1.45)	(-1.41)	(-1.52)	(-1.53)	(-1.45)
Parent Tech	0.396	0.436	0.501	0.459	0.404
	(1.25)	(1.33)	(1.49)	(1.44)	(1.26)
Local Experience	-0.170	-0.159	-0.106	0.085	-0.048
	(-0.55)	(-0.51)	(-0.33)	(0.27)	(-0.15)
Time Dummies	yes	yes	yes	yes	yes
Constant cut1	-1.164*	-1.352*	-1.286*	-0.969	-1.244*
	(-1.71)	(-1.86)	(-1.79)	(-1.37)	(-1.82)
Constant cut2	-0.380	-0.580	-0.517	-0.179	-0.451
	(-0.56)	(-0.82)	(-0.73)	(-0.25)	(-0.67)
Constant cut3	0.383	0.180	0.243	0.612	0.323
	(0.56)	(0.25)	(0.34)	(0.85)	(0.47)
N. of observations	88.000	88.000	88.000	88.000	88.000
Chi2	422.587	434.738	438.073	382.565	431.859
P>Chi2	0.000	0.000	0.000	0.000	0.000

* p<0.1, ** p<0.05, *** p<0.01. Marginal effects are available upon request.

Table 8a: Results of the robust Ordered Probit model applied to AMFs' sample – Institutional distance (1), property right distance (2), freedom from corruption distance (3), fiscal freedom distance (4) and global spending distance (5).

	(1)	(2)	(3)	(4)	(5)
Competitiveness	-0.208***	-0.182***	-0.199***	-0.221***	-0.211***
	(-3.11)	(-2.64)	(-2.81)	(-3.33)	(-3.14)
Institutional distance	0.273				
	(0.93)				
Property rights		0.328*			
		(1.79)			
Freedom from corruption			0.060		
			(0.74)		
Fiscal Freedom				0.020	
				(0.24)	
Government Spending					0.131*
					(1.72)
Size	-0.114**	-0.115**	-0.113**	-0.112**	-0.114**
	(-2.37)	(-2.39)	(-2.36)	(-2.32)	(-2.33)
Target Tech	-0.150	-0.138	-0.136	-0.163	-0.169
	(-0.89)	(-0.81)	(-0.79)	(-0.97)	(-1.00)
Parent Tech	0.229	0.215	0.243	0.232	0.230
	(1.45)	(1.35)	(1.53)	(1.47)	(1.45)
Local Experience	-0.097	-0.109	-0.113	-0.107	-0.044
	(-0.59)	(-0.66)	(-0.68)	(-0.64)	(-0.26)
Time Dummies	yes	yes	yes	yes	yes
Constant cut1	-5.849***	-5.260***	-6.009***	-6.139***	-5.948***
	(-15.81)	(-14.04)	(-21.32)	(-26.85)	(-24.75)
Constant cut2	-5.720***	-5.131***	-5.880***	-6.011***	-5.818***
	(-15.60)	(-13.89)	(-21.15)	(-26.98)	(-24.83)
Constant cut3	-5.180***	-4.588***	-5.341***	-5.472***	-5.273***
	(-14.40)	(-12.62)	(-19.82)	(-25.83)	(-23.68)
N. of obsevrations	350.000	350.000	350.000	350.000	350.000
Chi2	2340.704	1580.978	2080.156	2147.058	2220.647
P>Chi2	0.000	0.000	0.000	0.000	0.000

* p<0.1, ** p<0.05, *** p<0.01. Marginal effects are available upon request.

Table 8b: Results of the robust Ordered Probit model applied to AMFs' sample – Business Freedom Distance (6), Monetary Freedom Distance (7), Trade Freedom Distance (8), Investment Freedom Distance (9) and Financial freedom distance (10).

	(6)	(7)	(8)	(9)	(10)
Competitiveness	-0.217***	-0.222***	-0.225***	-0.193***	-0.219***
	(-3.28)	(-3.35)	(-3.41)	(-2.87)	(-3.13)
Institutional distance					
Business Freedom	0.112				
	(0.74)				
Monetary Freedom		-1.000			
		(-0.66)			
Trade Freedom			-4.346**		
			(-2.14)		
Investment Freedom				-0.214	
				(-1.22)	
Financial Freedom					-0.028
					(-0.16)
Size	-0.115**	-0.112**	-0.110**	-0.117**	-0.111**
	(-2.36)	(-2.33)	(-2.33)	(-2.41)	(-2.31)
Target Tech	-0.163	-0.177	-0.185	-0.163	-0.164
	(-0.97)	(-1.05)	(-1.10)	(-0.97)	(-0.97)
Parent Tech	0.218	0.226	0.230	0.231	0.234
	(1.38)	(1.43)	(1.46)	(1.45)	(1.47)
Local Experience	-0.094	-0.109	-0.156	-0.062	-0.106
	(-0.56)	(-0.66)	(-0.92)	(-0.36)	(-0.64)
Time Dummies	yes	yes	yes	yes	yes
Constant cut1	-6.089***	-6.226***	-6.450***	-5.971***	-6.190***
	(-25.86)	(-26.62)	(-19.45)	(-26.97)	(-20.93)
Constant cut2	-5.960***	-6.097***	-6.320***	-5.843***	-6.061***
	(-25.98)	(-26.78)	(-19.35)	(-27.21)	(-20.92)
Constant cut3	-5.421***	-5.558***	-5.775***	-5.302***	-5.523***
	(-24.74)	(-25.84)	(-18.40)	(-26.26)	(-19.78)
N of observations	350.000	350.000	350.000	350.000	350.000
Chi2	2277.144	2223.369	1829.284	2059.790	2065.129
P> Chi2	0.000	0.000	0.000	0.000	0.000

* p<0.1, ** p<0.05, *** p<0.01. Marginal effects are available upon request.

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NOTES

[i] Foreign acquisitions undertaken by private equity firms, venture capitalists and funds have been excluded since their rationales are likely to be different with respect to MNEs.

[ii] The database Reprint provides data on both the foreign affiliates of Italian firms and the Italian affiliates of foreign firms since 1986 and is yearly updated (for details see Mariotti and Mutinelli, 2010)

[iii] We employed the classification provided at the beginning of the period (2001) by the World Economic Outlook (WEO) Database of International Monetary Fund, which is available at the following link: http://www.imf.org/external/pubs/ft/weo/

[iv] The Heritage Foundation is a Washington think tank which provides, since 1995, indicators of the economic freedom for 184 countries. More details are available at the following website: http://www.heritage.org/index/

[v] The tenth item, i.e. labour freedom, has not been employed since data concerning this dimension of economic freedom are available only since 2005, while investments considered in our database range from 2001 to 2010.

[vi] According to Eurostat-OECD classification (2007), the high-tech industries are: aerospace, computers, office machinery, electronics-communications, pharmaceuticals and scientific instruments. The medium-high tech industries are: motor vehicles, electrical machinery, chemicals, other transport equipment and non-electrical machinery