

Institutional distance and cross-border acquisitions into emerging markets: the moderating effect of context experience

Distance and
context
experience in
M&As

Donatella Depperu

*Department of Economics and Business Management Sciences (SEGESTA),
Università Cattolica del Sacro Cuore, Milano, Italy*

Ilaria Galavotti

*Department of Economic and Social Sciences (DISES),
Università Cattolica del Sacro Cuore, Piacenza, Italy, and*

Federico Baraldi

Deloitte Italy SpA, Milano, Italy

Received 22 December 2021

Revised 20 June 2022

17 August 2022

Accepted 3 September 2022

Abstract

Purpose – This study aims to examine the multidimensional nature of institutional distance as a driver of acquisition decisions in emerging markets. Then, this study aims to offer a nuanced perspective on the role of its various formal and informal dimensions by taking into account the potential contingency role played by a firm's context experience.

Design/methodology/approach – Building on institutional economics and organizational institutionalism, this study explores the heterogeneity of institutional distance and its effects on the decision to enter emerging versus advanced markets through cross-border acquisitions. Thus, institutional distance is disentangled into its formal and informal dimensions, the former being captured by regulatory efficiency, country governance and financial development. Furthermore, our framework examines the moderating effect of an acquiring firm's experience in institutionally similar environments, defined as context experience. The hypotheses are analyzed on a sample of 496 cross-border acquisitions by Italian companies in 41 countries from 2008 to 2018.

Findings – Findings indicate that at an increasing distance in terms of regulatory efficiency and financial development, acquiring firms are less likely to enter emerging markets, while informal institutional distance is positively associated with such acquisitions. Context experience mitigates the negative effect of formal distance and enhances the positive effect of informal distance.

Originality/value – This study contributes to institutional distance literature in multiple ways. First, by bridging institutional economics and organizational institutionalism and second, by examining the heterogeneity of formal and informal dimensions of distance, this study offers a finer-grained perspective on how institutional distance affects acquisition decisions. Finally, it offers a contingency perspective on the role of context experience.

Keywords Mergers and acquisitions, Emerging markets, Institutional distance, Experience

Paper type Research paper

Introduction

The investigation of cross-border acquisitions as a mode to execute foreign direct investments (FDI) (Globerman and Shapiro, 2005; Sutherland *et al.*, 2020) has become an increasingly vibrant research topic especially when they involve emerging markets (Arslan and Larimo, 2011; Lebedev *et al.*, 2015; Dikova *et al.*, 2016; Ibrahim and Liassini, 2021;



© Donatella Depperu, Ilaria Galavotti and Federico Baraldi. Published by Emerald Publishing Limited. This article is published under the Creative Commons Attribution (CC BY 4.0) licence. Anyone may reproduce, distribute, translate and create derivative works of this article (for both commercial and non-commercial purposes), subject to full attribution to the original publication and authors. The full terms of this licence may be seen at <http://creativecommons.org/licences/by/4.0/legalcode>

International Journal of Emerging
Markets
Emerald Publishing Limited
1746-8809
DOI 10.1108/IJOEM-12-2021-1897

[Contractor et al., 2021](#)). These countries indeed display unique and distinct features relative to developed countries, primarily as they offer greater opportunities in terms of potential future growth prospects ([Marquis and Raynard, 2015](#)). However, their peculiar institutional environments make them relatively turbulent and uncertain relative to developed countries for multiple reasons, including underdeveloped capital markets ([Li and Atuahene-Gima, 2002](#); [Peng and Heath, 1996](#)), inadequate government and regulatory infrastructures ([Marquis and Qian, 2014](#); [Marquis et al., 2011](#)), relatively insufficient market monitoring mechanisms ([Schwens et al., 2011](#); [Contractor et al., 2014](#)) and a strong influence of the government ([Musacchio et al., 2015](#)). Collectively, these institutional aspects may play a role in shaping a firm's cross-border acquisition decisions in emerging markets ([Arslan and Larimo, 2011](#)). Extant literature has reported that this decision is affected by the institutional distance between the home country and the host location, this being a key factor shaping internationalization moves (e.g. [Kostova, 1999](#); [Estrin et al., 2009](#); [Meyer et al., 2011](#); [Van Hoorn, 2020](#)). In this paper, we focus on the role played by institutional distance in affecting internationalization decisions in terms of cross-border acquisitions into emerging versus developed markets.

Recent literature has increasingly acknowledged that institutional distance is a multifaceted construct reflecting the heterogeneity of cross-country variations at multiple levels (e.g. [Berry et al., 2010](#); [Perkins, 2014](#); [Kostova et al., 2020](#); [Sacristán-Navarro et al., 2022](#)). Building on this, we follow prior studies (e.g. [Arslan and Larimo, 2011](#); [Rottig et al., 2019](#); [Sacristán-Navarro et al., 2022](#); [Yang et al., 2022](#)) and unbundle institutional distance into its formal and informal dimensions, the former being captured by the regulatory efficiency, country governance and financial development and the latter regarded in terms of culture.

The conceptual framework of this study also suggests that, despite globalization, the contextual embeddedness of firms plays an important role in affecting the perceived liability of foreignness, as it determines the familiarity with specific market cultures and business practices ([Rabbiosi et al., 2012](#); [Buckley and Munjal, 2017](#)). In our specific research context, we argue that emerging markets share some common conditions at an institutional, economic and social level ([Marquis and Raynard, 2015](#)), to such an extent that the familiarity with their institutional environment generated by a firm's prior experience can alleviate its liability of foreignness and reduce the perceived formal and informal institutional differences. We, therefore, explore the potentially moderating effect of prior experience in the same type of markets (i.e. emerging markets) as a firm-specific resource that creates fungible capabilities – an experience that we define as *context experience*.

We tested our framework on a sample of 496 cross-border acquisitions executed by Italian firms in 41 countries between 2008 and 2018. Our results provide evidence of the importance of separately examining the multiple dimensions of institutional distance and the significant role played by prior experience in institutionally similar contexts. In particular, this study offers two main contributions. First, we join the ongoing conversations suggesting that patterns of firm internationalization can be explained by the differences between the home and the target country by proposing an integrative framework based on institutional economics that explore the potentially varying effects of both formal and informal dimensions of institutional distance ([Berry et al., 2010](#); [Sacristán-Navarro et al., 2022](#)). Simultaneously, we interpret such effects in terms of how the various formal and informal dimensions of distance affect the liability of foreignness associated with executing acquisitions in emerging *versus* developed countries, thus building on organizational institutionalism. Consequently, in terms of theoretical background, our conceptual framework bridges institutional economics with organizational institutionalism: although these two theoretical traditions have evolved independently in the literature, we argue that intriguing connections between them may be established. In doing so, we develop a conceptual framework that delves into the variations connected with diverse facets of

institutional distance. Second, we contribute to the organizational learning literature in the specific context of cross-border acquisitions by exploring the interplay between the different sources of distance and the firm's context experience. While most research has emphasized the role played by experience in the same host country (Zhu *et al.*, 2014; Huang *et al.*, 2017), host region (Basuil and Datta, 2015; Chakrabarti and Mitchell, 2016) and cultural block (Popli *et al.*, 2016), we focus on a type of experience that, to the best of the authors' knowledge, has remained comparatively underexplored, namely, experience in institutionally similar contexts. Based on the above, we answer multiple calls for a finer-grained perspective on institutional distance (Berry *et al.*, 2010; Kostova *et al.*, 2020) and on the importance of investigating contingency factors that may further shape cross-border acquisitions in emerging markets.

The remainder of the paper is organized as follows. In the next section, the theoretical background and the conceptual framework are outlined. Then, the methodology of the empirical analysis is described, and the results are analyzed and discussed. Finally, some conclusions are drawn.

Literature review and hypotheses development

Institutional economics and organizational institutionalism

Internationalization decisions are affected by the perception of the risks associated with the institutional differences between home and host countries, as such differences determine the costs and challenges of being embedded in a particular foreign location (Kraus *et al.*, 2015; Vaccarini *et al.*, 2019; Kostova *et al.*, 2020).

Institutional theory has mostly examined institutional distance through the theoretical lenses of either institutional economics or organizational institutionalism (Kostova *et al.*, 2020). The first emphasizes the quality of different institutional contexts related to formal and informal institutions (Rottig *et al.*, 2019; Yang *et al.*, 2022), where formal elements refer to rules and norms and informal elements are related to culture (Estrin *et al.*, 2009; Arslan and Larimo, 2011; Yang *et al.*, 2022). For instance, by observing listed Chinese companies over two time periods, 2006–2008 and 2017–2019, Yang *et al.* (2022) underscore the importance of examining formal and informal institutional distance as drivers of the ownership strategy of emerging market firms. Similarly, Arslan and Larimo (2011) take a formal versus informal distance perspective to examine the choice of the establishment mode in emerging markets. Hence, these studies indicate the value of distinguishing between formal and informal dimensions of institutional distance.

Organizational institutionalism, instead, emphasizes the legitimacy mechanisms in terms of regulative, normative and cognitive structures (Kostova, 1999; Dikova *et al.*, 2010) that characterize a specific institutional domain, the liability of foreignness and adaptation issues that emerge when entering a different country. Thus, the focus is on the external adaptation and responsiveness required to foreign firms rather than on the specific institutional conditions of the target location.

Although these two theoretical traditions have long developed separately, we suggest that they could mutually inform each other as they offer complementary perspectives on firm internationalization involving emerging markets. Hence, our conceptual framework disentangles institutional distance into its formal and informal dimensions and further explores the multiple dimensions of formal distance.

Formal institutional distance

Formal institutions include regulative, political and economic factors (Yang *et al.*, 2022) and determine the level of stability, market failure, uncertainty and information complexity in

transactions. Hence, by affecting the perceived risk, formal institutions affect the attractiveness of a given foreign direct investment (Romero-Martinez *et al.*, 2019) and the foreign market entry mode that will be preferred (Arslan and Larimo, 2011; Yang *et al.*, 2022). For instance, in their study of the effect of formal and informal distance in 60 internationalized Spanish hotel chains, Romero-Martinez and colleagues (2019) found that formal institutional differences decrease the attractiveness of a foreign location.

In view of the heterogeneous aspects involved, formal institutional distance is a multifaceted construct encompassing multiple dimensions. Therefore, we propose that various sources of formal institutional distance may drive acquisition decisions in emerging markets. In particular, we disentangle formal distance into three key dimensions related to the normative, governmental and financial spheres, which we capture through the regulatory efficiency, governance and financial development of the target country, respectively.

Regulatory efficiency distance. A country's regulatory conditions, considered in terms of freedom at business, labor and monetary levels (Ghazalian and Amponsem, 2019), shape the investment climate because the extent to which business establishment and operations are free from governmental regulatory interference significantly affects the cost of entry in a given location. In their examination of foreign expansion decisions across 189 countries, Contractor *et al.* (2020) found that restrictions or requirements imposed by governments may force firms to reconfigure their global value chains and rearrange products and processes to favor local adaptation.

Similarly, the legal framework of a labor market may impose stringent and rigid requirements that demand a strategic adaptation (Arslan and Larimo, 2011) and possibly also discourage firms' investments (Contractor *et al.*, 2020). Finally, monetary freedom, which is reflected in the degree of price stability and inflation, shapes the reliability of market forecasts (Miller and Kim, 2013).

Jointly considered, differences in regulatory efficiency may increase a firm's liability of foreignness via restrictions placed on certain business dealings and transfers of technology (Mayrhofer, 2004). Building on these arguments and since regulatory efficiency tends to be lower in emerging as compared to advanced economies, we suggest that increasing distance in the degree of regulatory efficiency between the home and the host country may negatively affect the propensity of firms from advanced economies to execute cross-border acquisitions in emerging markets. Therefore, we hypothesize the following:

- H1a.* At increasing formal institutional distance in terms of regulatory efficiency, firms from advanced economies will be less likely to acquire in an emerging market relative to an advanced economy.

Country governance distance. Firms' investment decisions are influenced by the overall quality of country governance (Henisz and Delios, 2004). For instance, by analyzing 8,090 cross-border acquisitions between 1990 and 2007, Ellis *et al.* (2017) indicated that country governance affects incentive structures, the enforcement of property rights and the extent of agency problems that firms will have to face, thus ultimately shaping the attractiveness of a foreign location.

The World Bank defines a country's governance as "the traditions and institutions by which authority in a country is exercised." Although governance encompasses multiple institutional aspects, we focus on a central dimension in our research context, namely, the government's effectiveness in formulating and implementing sound policies, which is a function of the degree of political stability.

Stability at a political level is an important determinant of the costs of doing business in a given country (Berry, 2013), as politically stable countries provide more predictable, less volatile policies and regulatory environments that reduce risk perceptions and hence encourage internationalization (Kraus *et al.*, 2015). In contrast, when political institutions lack

checks and balances, policymakers are relatively unconstrained in their choice of policies. For instance, transitional and non-democratic states usually display the greatest level of political instability because policymakers are left with high discretion (Henisz and Delios, 2004).

In politically unstable countries such as emerging countries, policies and regulations can change more easily and often, which increases information processing demands (Berry, 2013). For instance, the host country government may be better able to restrict the behavior of foreign firms (Arslan and Larimo, 2011). Using data on 2,283 manufacturing subsidiaries established over the 1991–2000 period by 642 Japanese manufacturing firms in 52 countries, Henisz and Delios (2004) found that both political hazard and regime change, being two key sources of environmental uncertainty, shape the likelihood of the subsidiary exiting.

Building on the above arguments, we suggest that distance in a country's governance will play a role in the decision to enter an emerging market. Specifically, we expect that firms' propensity to acquire in an emerging market will reduce as the gap in terms of a country's governance, as reflected in its political stability, increases. Following this argument, we hypothesize the following:

- H1b.* At increasing formal institutional distance between the home and the host country in terms of country governance, firms from advanced economies will be less likely to acquire in an emerging market relative to an advanced economy.

Financial development distance. The development of a country's financial system has consequences on how firms can fund their operations (Berry *et al.*, 2010; Bakar *et al.*, 2022). Inefficient financial markets such as those of emerging markets have indeed been regarded as a key obstacle to internationalization: examining a sample of 5,000 firms in emerging and developing economies, Berman and Héricourt (2010) found that the existence of financial constraints and the underdevelopment of financial markets limits the international expansion of firms through export. In contrast, efficient financial markets that are both developed and stable are characterized by prices that reflect all available public information, a lack of bubbles, the capacity to manage risks through hedging and the tendency to allocate savings to their most productive investment uses.

Financial development is defined here following the World Economic Forum's approach, namely, as the depth of the intermediation system, including the availability and liquidity of varying financial products. Financial development promotes productivity in several ways, as it enables risks to be pooled and improves access to information and the allocation of capital (Pang and Wu, 2009), and the transaction costs associated with the exchange of goods and services, thus generating productivity gains (Loaba, 2022). In emerging markets, financial exchanges are more volatile compared to developed countries, and the absence of financial intermediaries allows firms to exploit information asymmetries both within and across markets (Peng and Heath, 1996; Li and Atuahene-Gima, 2002). The consequent potential for opportunism increases monitoring costs and hampers the enforcement of legal contracts (Marquis and Qian, 2014). Therefore, we suggest that firms used to more developed and efficient financial markets such as those located in advanced economies will be less likely to accept the financial voids that typically characterize emerging markets. Following these arguments, we hypothesize the following:

- H1c.* With increasing formal institutional distance between the home and the host country in terms of financial development, firms from advanced economies will be less likely to acquire in an emerging market relative to an advanced economy.

Informal institutional distance. Informal institutional distance relates to differences in the values and norms between countries (Estrin *et al.*, 2009) and may have a remarkable effect on strategic firm behavior (Arslan and Larimo, 2011; Romero-Martinez *et al.*, 2019; Yang *et al.*, 2022). Following an established approach in the literature, informal institutional distance is

captured by differences in national cultures (Dikova *et al.*, 2010; Yang *et al.*, 2022; Zheng *et al.*, 2022). Culture is indeed an informal institution that contributes to the diversity of local contexts and to the liability of foreignness associated with becoming embedded in a foreign location (Zaheer and Mosakowski, 1997; Yang *et al.*, 2022). For example, based on a panel of 43 countries during 2003–2016, Zheng *et al.* (2022) find a U-shaped relationship between cultural distance and the efficiency of outward investments so that for low levels of cultural distance, the liability of foreignness is more important and the efficiency of outward FDI is reduced; as an opposite, for high levels of cultural distance, the efficiency of outward FDI is improved.

Integrating culturally distant activities is particularly challenging, as cultural differences may reduce the managerial effectiveness in leveraging firm-specific advantages in a given foreign location (Chakrabarti *et al.*, 2009). In an acquisition context, cultural distance raises additional challenges relative to the costs that firms already have to face to integrate the target: in addition to firm-level differences in organizational cultures, informal institutional differences require the adaptation to a foreign national culture, thus making post-acquisition integration “double-layered” (Barkema *et al.*, 1996).

The extent of cultural differences between the home and the host country also drives the country risk perceived by a foreign investor and hence affects its preference at various levels, including the host location and the establishment mode. For instance, examining the choice between greenfield investments and acquisitions, both Slangen and Hénnart (2008) and Arslan and Larimo (2011) argued that when entering culturally distant countries, firms prefer greenfield investments in order to avoid the costs associated with managing the integration of potentially incompatible practices and values that would arise in case of an acquisition. Overall, the high cultural distance may magnify the perceived uncertainty and risks associated with internationalization projects (Contractor *et al.*, 2014). Thus, perceived marginal costs increase exponentially in countries with large distances at the cultural level from the firm’s home country. Based on the above arguments, we hypothesize the following:

- H2. With increasing informal institutional distance between the home and the host country, firms from advanced economies will be less likely to acquire in an emerging market relative to an advanced economy.

The moderating role of the firm’s context experience

Firms’ unfamiliarity with formal and informal institutions amplifies uncertainty (Contractor *et al.*, 2014), generates competitive disadvantage and increases the costs of doing business abroad (Mezias, 2002). Thus, the importance of a firm’s experience for its international expansion has been extensively acknowledged (e.g. Perkins, 2014; Wang *et al.*, 2020): experience mitigates the relational hazards because it creates social knowledge and embeddedness with the local businesses and governments, which helps to obtain local legitimacy (Zaheer and Mosakowski, 1997) and to transfer firm-specific resources and strategic organizational practices more effectively across borders (Kostova, 1999). Furthermore, a firm’s prior knowledge of the local context influences the ability to exploit the local resource endowment and may thus affect a firm’s risk propensity by encouraging investments in riskier host countries. Indeed, by examining a sample of 1,603 acquisitions announced by 724 U.S. firms between 1980 and 2004, Chakrabarti and Mitchell (2016) suggested that when a firm has experience in the same host region, it will more likely complete a deal even in the presence of a high geographic distance.

We further develop this research route and argue that an acquiring firm’s experience in other emerging markets, which we term *context experience*, may play an important role in driving the propensity to enter emerging versus advanced economies, as it provides firms with a buffer of knowledge at the institutional level that may equip foreign acquirers with

skills on how to manage the focal acquisition. Although emerging markets may differ in several characteristics, especially in terms of their pace of political and economic change and growth, they actually share many features that not only distinguish them from developed markets, but also create a set of general challenges that firms have to face to navigate their business environments (Marquis and Raynard, 2015). These include inefficient capital markets (Peng and Heath, 1996; Li and Atuahene-Gima, 2002), underdeveloped infrastructures (Marquis *et al.*, 2011; Marquis and Qian, 2014), insufficient market monitoring (Schwens *et al.*, 2011; Contractor *et al.*, 2014), along with a pronounced government influence (Musacchio *et al.*, 2015).

We hence expect that firms that already have experience in such contexts will be equipped with context-specific competencies that are unavailable to firms entering an emerging market for the first time. Such experiential endowment may be valuable to address both formal and informal aspects of institutional distance. Specifically, familiarity with the relevant aspects of a given environment for doing business, such as that of emerging markets, may inform internationalization decisions by providing firms with a greater ability to predict and cope with new, volatile and hazardous business contexts (Perkins, 2014). For instance, to address the formal institutional voids associated with entering emerging markets, firms have to implement strategies at multiple levels, including the development of interpersonal networks and social capital as “substitutes” for weak market structures and underdeveloped regulatory and legal infrastructure (Marquis and Raynard, 2015), informal ways to manage litigation (Peng and Heath, 1996) and the management of local labor forces and interface with government authorities (Henisz, 2003).

In terms of informal institutional distance, in their exploration of the role of cultural distance as a driver of deal abandonment, Popli *et al.* (2016) used data on 197 Indian firms and found that the effect of cultural distance on the likelihood of abandoning a cross-border acquisition is reduced with increasing experience in the same target country or in culturally similar countries, which further confirms that experience plays a role in mitigating the perceived cultural differences.

Hence, we posit that context experience may reduce the perceived liability of foreignness associated with both formal and informal dimensions of institutional distance and will thus increase firms’ propensity to make acquisitions in emerging economies compared to developed countries.

The following hypotheses can thus be formulated:

- H3a.* Context experience has a positive moderating effect on the relationship between the formal institutional distance between the home and the host country (in terms of regulatory efficiency, country governance and financial development) and the likelihood that firms from advanced economies will acquire in an emerging market relative to an advanced economy.
- H3b.* Context experience has a positive moderating effect on the relationship between informal institutional distance and the likelihood that firms from advanced economies will acquire in an emerging market relative to an advanced economy.

Following the best practice in terms of interpretation of moderating effects (Andersson *et al.*, 2020), we provide a representation of the conceptual model and hypotheses in Figure 1.

Methodology

Sample

The hypotheses were tested using a dataset of 496 cross-border acquisitions completed by Italian firms over the period from 2008 to 2018 in 41 countries. This time window is

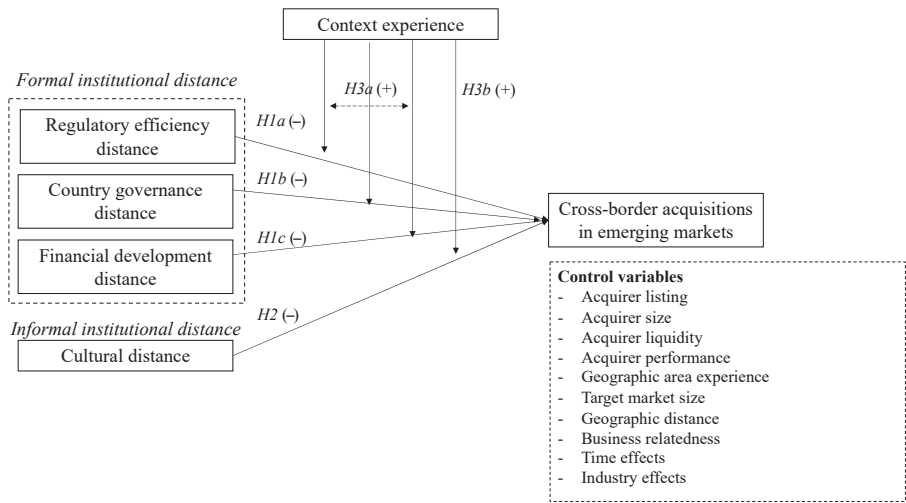


Figure 1.
Conceptual model and
hypotheses

consistent with the current literature (Wang *et al.*, 2020). In terms of the research setting, Italy represents an intriguing context by virtue of its increasing M&A activity, which has intensified since 2009, when the overall M&A volume reached its second worst result since 2004. Following 2007's historical record value of €59.8bn, 2008 represented an adverse year due to the outbreak of the global financial crisis and hence shaped particularly interesting FDI behaviors by MNEs all over the world (Yang *et al.*, 2022). Thus, our choice of 2008 is fully in line with other studies (e.g. Rabbiosi *et al.*, 2012; Cerrato *et al.*, 2016; Yang *et al.*, 2022) and especially appropriate given the specificities of our research context. Similarly, 2018 represented an unprecedented year, since Italian cross-border M&A volume reached a new peak of 183 completed deals (+15% relative to 2017), corresponding to a value of €57.8bn (six times the M&A value realized in 2017). Thus, the 2008–2018 time window appears to be particularly suitable for exploring cross-border M&As by Italian firms. The distribution of acquisitions by target country is shown in Table 1.

Although liability of foreignness is often viewed as an “in-group/out-group” construct, differences between host and home countries suggest that the level of liability of foreignness varies by home country (Miller and Richards, 2002). We, therefore, selected cross-border acquisitions executed by Italian acquirers to keep the home country of acquirers as an element of homogeneity in our sample, which is fully consistent with recent studies keeping a single country on the acquirer side (e.g. Yang *et al.*, 2022). Furthermore, since our focus is on the acquisition decision, our sample included only completed transactions and thus excluded announcements, rumors and demergers. Finally, to avoid prior direct knowledge of the target firm biasing the results (Contractor *et al.*, 2014) and to minimize disclosure bias in multi-country studies (Very *et al.*, 2012), the sampled deals were majority acquisitions (at least 51 % stake) in which the acquirers did not have prior stakes in the target firms.

Following prior research (Bollaert and Delanghe, 2015), we collected data on M&A deals and firms from Zephyr, the database produced by *Bureau van Dijk Electronic Publishing*, which supplies information about M&A deals and is one of the most widely used in managerial studies. Data on countries were hand-collected from multiple sources, including the Morgan Stanley Capital International All Country World Index (MSCI ACWI), the World

Target countries	No. of acquisitions	% distribution	Distance and context experience in M&As
USA	70	14.11%	
UK	67	13.51%	
France	58	11.69%	
Germany	53	10.69%	
Spain	50	10.08%	
The Netherlands	28	5.65%	
Brazil	20	4.03%	
Sweden	16	3.23%	
Switzerland	16	3.23%	
Poland	15	3.02%	
Denmark	8	1.61%	
Canada	7	1.41%	
Turkey	7	1.41%	
China	6	1.21%	
Czech Republic	6	1.21%	
Mexico	6	1.21%	
Russian Federation	6	1.21%	
Argentina	5	1.01%	
India	5	1.01%	
Ireland	5	1.01%	
Portugal	5	1.01%	
Greece	4	0.81%	
Australia	3	0.60%	
Colombia	3	0.60%	
Hungary	3	0.60%	
Singapore	3	0.60%	
South Africa	3	0.60%	
Others ^a	18	3.63%	
<i>Total</i>	<i>496</i>	<i>100%</i>	

Note(s): ^a The category “Others” includes countries where less than three acquisitions were executed. These include: Finland, New Zealand and Slovenia with two acquisitions each, and Costa Rica, Hong Kong, Indonesia, Israel, Japan, Namibia, Nigeria, Philippines and Taiwan with only one acquisition each

Table 1.
Distribution of acquisitions by target country

Economic Forum (WEF), the World Bank, the Index of Economic Freedom created by the Heritage Foundation and the GLOBE Project.

In terms of geographic distribution, the sample is skewed toward Europe, with 340 acquisitions (68.55%); 77 acquisitions are in North America (15.52%), 35 in Central and South America (7.06%) and 25 acquisitions were in Asia–Pacific (5.04%). The remaining 19 observations (3.83%) include 13 acquisitions in Africa and the Middle East and 6 in the Russian Federation. These data indicate that Italian firms tended to make acquisitions mainly in advanced and geographically closer markets.

Variables and measures

The dependent variable *cross-border acquisition in emerging markets* is a binary variable taking a value of 1 if the target firm is located in an emerging country and a value of 0 if the target’s country is classified as a developed economy. This operationalization was based on the classification by Morgan Stanley Capital International (MSCI) ACWI and Frontier Market Index. Specifically, we adopted a broad classification of emerging markets and included emerging, frontier and standalone markets, that is, all countries not considered in the “developed” category of the MSCI World Index. In our sample, 96 out of 496 acquisitions (19% of the total sample) were executed in emerging markets, while the remaining 400 (81%) were

in advanced economies. These data confirmed Italian companies' general appetite for expansion in advanced market contexts.

In terms of the independent variables, all our distance measures between the host country and Italy were computed using the following equation (Yang *et al.*, 2022):

$$Distance = \sum_{i=1}^n \left((I_{ij} - I_{ih})^2 / V_i \right) / n$$

where $n \in \mathbb{N}$. *Distance* is the distance between the j host country and the home country (Italy), I_{ij} is the index of the i th dimension for the host country j , I_{ih} is the i th dimension index of the home country (Italy), and V_i is the variance of the index in the i th dimension. High values of distance would indicate more significant differences in both the formal and informal institutions between the host country and Italy. In particular, and consistent with previous research (e.g. Trapczynski and Banalieva, 2016), *regulatory efficiency distance* was measured as the difference in the three regulatory dimensions of business freedom, labor freedom and monetary freedom from the Index of Economic Freedom between Italy and the target countries. To capture the *country governance distance*, we relied on the standard normal unit of the aggregate World Governance political stability indicator, operationalized as the difference between the Italian political stability score and the target country political stability score. World Bank data are particularly appropriate in studies exploring regulatory and infrastructural variables (Contractor *et al.*, 2020). The *financial development distance* variable was built as the difference in the scores of the synthetic measures of “efficiency” and “trustworthiness” of financial markets based on the WEF Global Competitiveness Index.

Cultural distance was operationalized through the nine dimensions of the GLOBE Project, namely, power distance, uncertainty avoidance, performance orientation, assertiveness, future orientation, human orientation, institutional collectivism, in-group collectivism and gender egalitarianism (House *et al.*, 2004). Consistent with the above formula and prior studies (e.g. Vaara *et al.*, 2012; Yang *et al.*, 2022), we adapted Kogut and Singh's (1988) equation as follows:

$$CD = \sum_{i=1}^9 \left((I_{ij} - I_{ih})^2 / V_i \right) / 9$$

where *CD* is the cultural distance between the j host country and the home country (Italy).

Finally, our variable of *context experience* was measured as the number of cross-border acquisitions completed by acquiring firms in emerging markets since 2000 up to one year before the focal acquisition. Following an established route in the literature (e.g. Slangen and Hénnart, 2008), using a continuous measure of experience enables appreciation of variances in the effect of experience as a function of its accumulation. In our sample, 75 acquisitions (15%) were executed by firms that already had experience in the same institutional context of the focal acquisition, while the majority of acquisitions (85%) were carried out by firms that did not benefit from any prior context experience.

We also controlled for several factors at the firm-, country-, and deal-level.

At the firm-level, we controlled for the acquirer's listing status, size, liquidity and pre-deal performance, as well as experience in the same geographic area of the target. As listed companies may be better equipped for entering difficult markets and pay more attention to the financial conditions of the target markets when making foreign investments (Yang *et al.*, 2022), we controlled for the listing status of the acquiring firms. *Acquirer listing* is a dichotomous variable taking a value of 1 when the acquirer is listed

and 0 otherwise. In our sample, 134 cross-border acquisitions (27%) were executed by listed firms, while the remaining 362 (73%) were carried out by non-listed firms. The firm's size is a proxy of the resource endowments that may be invested in the management and implementation of the acquisition and of the possibility of conducting due diligence on the target (Chen *et al.*, 2018). Therefore, we included the control variable *acquirer size*, operationalized as the log-transformed total assets in the year preceding the focal acquisition (Wang and Zajac, 2007). *Pre-deal liquidity* of the acquiring firm was calculated as the difference between current assets and inventory divided by current liabilities one year prior to the focal acquisition. Our model also included the *acquirer pre-deal performance*, as it may shape the willingness of acquirers to navigate risky investment projects. In line with prior studies (Galavotti *et al.*, 2017), this variable was measured through an accounting approach by virtue of its objectivity and, in particular, as the return on assets (ROA) one year before the deal, this being a measure of the efficient and profitable use of a firm's total asset base.

Several studies have acknowledged the important role played by a firm's experience in the same host region (Basuil and Datta, 2015; Chakrabarti and Mitchell, 2016; Popli *et al.*, 2016). Following this route, we included a variable to capture the acquirer's *geographic experience*, measured as a geographic dispersion index calculated as the number of cross-border acquisitions that the firm had executed in the same target area as the focal acquisition. To build this measure, we classified target countries into 11 geographic areas, namely, EU 15, other EU countries, Russia, Central and South America, North America, China, other Asian countries, the Middle East, Africa and others. In our sample, 123 cross-border acquisitions (25%) were executed by firms that already had experience in the same geographic area, while the remaining 373 (75%) were made by firms that had entered the geographic area for the first time. It is also worth noticing that 338 acquisitions (68%) were executed by firms that did not have either any prior context experience or experience in the same geographic area. These data ruled out the possibility of a mere path-dependent effect in acquisition decisions in our sample.

At the country-level, we controlled for the *target market size* as an important factor affecting the potential for scale economies and the investment opportunities offered by a specific target location (Buckley and Munjal, 2017). This variable was measured based on the WEF and builds on two components, namely, the size of the domestic market (computed as the natural log of the sum of the purchase power parity-adjusted GDP plus the total value of imports of goods and services minus the total value of exports of goods and services) and the size of the foreign market (computed as the natural log of the total value of exports of goods and services). As an additional country-level control, we also included the *geographic distance* (Chakrabarti and Mitchell, 2016), measured as the distance in kilometers between capitals. Geographic distance is a measure of the potential friction in international operations (Contractor *et al.*, 2016) and a significant determinant of international home bias (Chan *et al.*, 2005) and information (dis-)advantage (Ojala, 2015).

Finally, at the deal-level, we controlled for business relatedness, time and industry.

Business relatedness between acquirer and target is a key driver of foreign expansion decisions (Contractor *et al.*, 2014); for instance, it has been suggested that acquiring firms are likely to choose greater relatedness at increasing unfamiliarity with the target country (Galavotti *et al.*, 2017). Our variable of business relatedness was a dichotomous measure based on the 4-digit NAICS codes of acquirer and target (Wang and Zajac, 2007) taking a value of 1 when the acquirer and target have the same 4-digit NAICS codes, meaning that they operate in the same business, and a value of 0 when there is no match. Observations in our sample were almost equally distributed, with 214

acquisitions (43%) involving related businesses and 282 (57%) being diversifying acquisitions.

To rule out both time- and industry-varying investment opportunities (Klasa and Stegemoller, 2007), additional controls were added for *period* and *industry effects* through a series of dichotomous variables for each year in the sample, with 2008 as the residual category, and for the macro-industries of the acquirers (utilities, manufacturing, trade, services and others), with the manufacturing industry as the baseline category. The variables and their operationalization are reported in Table 2.

Analytical method

In view of the binary nature of our dependent variable, the appropriate estimation method is represented by univariate binary choice models. Therefore, we adopted a logit specification, which falls into this class of models. In particular, to test the hypotheses of this study, the following model was run:

Variables	Measures
Cross-border acquisition in emerging markets	Dichotomous variable 1 = the acquisition is executed in an emerging market 0 = the acquisition is executed in an advanced economy
Context experience	Number of acquisitions executed in emerging markets at t-1 (since 2000)
Regulatory efficiency distance	Difference in the three regulatory dimensions of business freedom, labour freedom and monetary freedom between Italy and the target countries
Country governance distance	Difference between the Italian political stability score and the target country political stability score
Financial development distance	Difference in the scores of the WEF synthetic measures of “efficiency” and “trustworthiness” of financial markets between Italy and target countries
Cultural distance	Kogut and Singh (1988) formula applied to the nine dimensions of culture of the Globe project
Acquirer listing	Dichotomous variable 1 = the acquiring company is listed 0 = otherwise
Acquirer size	Logarithm of the acquiring firm’s total assets at t-1
Acquirer liquidity	Difference between current assets and inventory divided by current liabilities at t-1
Acquirer pre-deal performance	Acquiring firm’s return on assets at t-1
Geographic experience	Number of cross-border acquisitions executed in the same target area of the focal acquisition at t-1, based on 11 geographic areas (EU 15, other EU countries, other European countries, Russia, Central and South America, North America, China, other Asian countries, Middle East, Africa, others)
Target market size	WEF measure the size of the domestic market (natural log of the sum of the PPP-adjusted GDP + imports – exports) and the size of the foreign market (natural log of exports)
Geographic distance	Distance in kilometers between the capitals of Italy and the target countries
Business relatedness	Dichotomous variable 1 = match between the 4-digit NAICS codes of acquirer and target 0 = no match
Time effects	One dummy variable for each year of observation (11 variables with 2008 as the baseline year)
Industry effects	One dummy variable for each industry of observation (manufacturing, trade, services, utilities, others, with manufacturing as the baseline category)

Table 2.
Variables and
measures

Cross – border acquisition in emerging markets

$$\begin{aligned}
 = & \alpha_0 + \alpha_1 \text{context experience} + \alpha_2 \text{regulatory efficiency distance} \\
 & + \alpha_3 \text{country governance distance} + \alpha_4 \text{financial development distance} \\
 & + \alpha_4 \text{cultural distance} + \alpha_5 \text{regulatory efficiency distance} * \text{context experience} \\
 & + \alpha_6 \text{country governance distance} * \text{context experience} \\
 & + \alpha_7 \text{financial development distance} * \text{context experience} \\
 & + \alpha_8 \text{cultural distance} * \text{context experience} + \alpha_9 \text{acquirer listing} + \alpha_{10} \text{acquirer size} \\
 & + \alpha_{11} \text{acquirer pre – deal performance} + \alpha_{12} \text{acquirer liquidity} \\
 & + \alpha_{13} \text{geographic experience} + \alpha_{14} \text{target market size} + \alpha_{15} \text{geographic distance} \\
 & + \alpha_{16} \text{business relatedness} + \alpha_{17} 2009 + \alpha_{18} 2010 + \alpha_{19} 2011 + \alpha_{20} 2012 \\
 & + \alpha_{21} 2013 + \alpha_{22} 2014 + \alpha_{23} 2015 + \alpha_{24} 2016 + \alpha_{25} 2017 + \alpha_{26} 2018 \\
 & + \alpha_{27} \text{trade} + \alpha_{28} \text{services} + \alpha_{29} \text{utilities} + \alpha_{30} \text{others}
 \end{aligned}$$

Thus, the likelihood of the firm-level decision to pursue an acquisition in an emerging versus an advanced economy is regarded as a function of several country-level distance variables and of a number of control variables at the firm-, deal- and country-level.

Following the established route in the literature, to ensure proper inference of causality in our cross-section model, the independent variables were one year-lagged with respect to the year of the acquisition (Lee and Lieberman, 2010). In other words, the likelihood of a firm executing a cross-border acquisition in an emerging market at time t is a function of a number of distance variables, their interaction with context experience and a set of control variables, all measured at time $t-1$.

Results

Table 3 provides the descriptive statistics and the correlations of our variables. The low correlation coefficients suggest that multicollinearity issues did not bias our results. However, to further ensure that multicollinearity did not affect our models, we analyzed the variance inflation factors (VIFs), which were all well below the cautious cut-off of 5 (maximum VIF was 4.89).

There was a negative correlation between our distance variables and the dependent variable. Interestingly, the slightly negative association between cultural distance and the propensity to enter emerging markets suggests that lower levels of cultural distance are associated more with cross-border acquisitions in advanced economies relative to greater levels of cultural distance. Furthermore, cultural distance showed positive correlations with the three variables of formal institutional distance, thus indicating a strong connection between formal and informal dimensions of institutional distance.

Table 4 reports the results of the regression models. Model 1 displays only control variables. Models 2–6 show the results for the progressive inclusion in the models of our independent variables related to context experience and the distances, while Model 7 is the full model including also the interaction terms. Specifically, following the best practice of interpreting the moderating effects (Andersson *et al.*, 2020), we added our moderator alone in

Variables	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) Cross-border acq. in emerg. mkt	0.19	0.40	1.00												
(2) Context exp	0.34	1.02	0.13*	1.00											
(3) Reg. eff. dist	5.18	8.57	-0.57*	-0.04	1.00										
(4) Country gov. dist	0.03	0.57	-0.52*	-0.02	0.53*	1.00									
(5) Fin. dev. dist	1.31	0.61	-0.47*	-0.05	0.59*	0.40*	1.00								
(6) Cultural dist	1.63	1.08	-0.21*	-0.01	0.47*	0.57*	0.41*	1.00							
(7) Acq. listing	0.27	0.44	0.12*	0.24*	-0.06	-0.06	-0.08	-0.05	1.00						
(8) Acq. size	8.17	0.91	0.21*	0.31*	-0.07	-0.11*	-0.08	-0.04	0.38*	1.00					
(9) Acq. liquidity	1.72	2.79	-0.04	-0.05	-0.03	0.08	-0.01	0.02	-0.04	-0.10*	1.00				
(10) Acq. performance	3.54	11.21	0.04	0.03	-0.11*	-0.08	-0.05	-0.11*	-0.07	0.16*	-0.01	1.00			
(11) Geographic experience	0.45	1.02	-0.14*	0.29*	0.08	0.01	-0.03	-0.11*	0.31*	0.23*	-0.05	-0.03	1.00		
(12) Target mkt size	5.60	0.77	-0.21*	-0.08	0.22*	-0.20*	0.29*	-0.26*	-0.03	-0.03	-0.07	0.01	0.06	1.00	
(13) Geographic distance	3.313	3.354	0.34*	0.15*	0.10*	-0.24*	0.08	-0.05	0.10*	0.16*	-0.02	0.02	-0.05	0.28*	1.00
(14) Business relatedness	0.44	0.50	-0.02	0.08	-0.05	0.00	-0.05	-0.06	-0.02	-0.07	-0.06	0.09	0.02	0.00	-0.06

Note(s): Time and industry dummies have not been reported for space reasons
Significance level: * $p < 0.5$

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
<i>Independent variables</i>							
Context exp			0.55 (0.15)*** -0.40(0.04)***	0.56 (0.15)*** -0.38(0.05)*** -0.34 (0.40)	0.54 (0.17)*** -0.35(0.05)*** -0.04 (0.41) -1.27 (0.41)***	0.62 (0.20)*** -0.37(0.05)*** -0.44 (0.49) -1.70 (0.44)*** 0.66 (0.22)***	1.53 (0.54)*** -0.30(0.05)*** -0.57 (0.63) -2.04 (0.54)** 0.60 (0.24)** -0.33 (0.08)*** 0.42 (0.61) -0.84 (0.41)** 1.29 (0.42)***
Reg. eff. dist		0.26 (0.15)*					
Country gov. dist							
Fin. dev. dist							
Cultural dist							
Reg. eff. dist.*Context exp							
Country gov. dist.*Context exp							
Fin. dev.dist.*Context exp							
Cultural dist.*Context exp							
<i>Control variables</i>							
Acq. listing	0.37 (0.33)	0.35(0.33)	0.70 (0.49)	0.70 (0.50)	0.55 (0.53)	0.68 (0.56)	0.39 (0.70)
Acq. size	0.54 (0.16)***	0.46 (0.16)***	0.54 (0.28)*	0.53 (0.28)*	0.56 (0.30)*	0.51 (0.30)*	0.58 (0.30)*
Acq. liquidity	-0.13 (0.13)	-0.12 (0.13)	-0.09 (0.05)*	-0.08 (0.05)	-0.09 (0.05)	-0.06 (0.05)	-0.02 (0.5)
Acq. performance	0.00 (0.01)	0.00 (0.01)	-0.04 (0.02)**	-0.04 (0.02)**	-0.04 (0.02)**	-0.04 (0.02)**	-0.04 (0.01)**
Geogr. experience	-1.10 (0.34)***	-1.35 (0.39)***	-1.88 (0.43)***	-1.86 (0.43)***	-2.00 (0.45)***	-2.08 (0.51)***	-3.28 (0.72)***
Target mkt size	-0.101 (0.22)***	-0.98 (0.22)***	-2.45 (0.41)***	-2.46 (0.40)***	-2.22 (0.41)***	-2.18 (0.42)***	-2.51 (0.49)***
Geographic distance	0.00 (0.00)***	0.00 (0.00)***	0.00 (0.00)***	0.00 (0.00)***	0.00 (0.00)***	0.00 (0.00)***	0.00 (0.00)***
Business relatedness	0.13 (0.26)	0.06 (0.27)	0.27 (0.43)	0.29 (0.46)	0.26 (0.47)	0.36 (0.51)	0.57 (0.56)
Year dummies	Included	Included	Included	Included	Included	Included	Included
Trade	0.34 (0.50)	0.42 (0.50)	0.56 (0.83)	0.56 (0.82)	0.43 (0.85)	0.81 (0.87)	0.99 (0.94)
Services	0.41 (0.31)	0.34 (0.31)	0.53 (0.55)	0.50 (0.56)	0.46 (0.54)	0.52(0.56)	0.45 (0.59)
Utilities	0.89 (0.57)	1.04 (0.56)*	-0.14 (1.15)	-0.06 (1.18)	-0.17 (1.31)	0.22 (1.42)	-0.12 (1.45)
Others	0.08 (0.61)	0.12 (0.61)	0.11 (0.61)	0.12 (0.62)	-0.14 (0.66)	-0.49 (0.70)	-0.94 (0.70)
Intercept	-1.36 (1.82)	-0.88 (1.78)	6.44 (3.09)**	6.59 (3.06)**	6.42 (3.20)**	5.94 (2.97)**	6.94 (3.26)**
Number of observations	496	496	496	496	496	496	496
Adjusted R^2	0.21	0.22	0.61	0.61	0.61	0.62	0.64

Note(s): Dependent variable: Cross-border acquisitions in emerging markets vs. advanced economies

Standard errors are in parentheses

Significance levels: * $p < 0.1$, ** $p < 0.5$, *** $p < 0.01$

Distance and
context
experience in
M&As

Table 4.
Logistic regression
results

Model 2. The direct effect on the dependent variable is significant and positive, which suggests that firms are more likely to enter emerging countries when they are equipped with experience in institutionally similar environments. Then, we added our distance variables – namely, regulatory efficiency distance (Model 3), country governance distance (Model 4), financial development distance (Model 5), cultural distance (Model 6) and interactions (Model 7). The explanatory power of the statistical models is good and increases in our full model ($R^2 = 0.64$ in Model 7). As far as post-estimation is concerned, our model showed 94.8% correctly classified cases in terms of cross-border acquisitions into emerging versus advanced economies, thus further confirming the good model performance.

In terms of control variables, the acquiring firm's size has a positive effect, which confirms that larger firms are more prone to embark on risky investment projects as they benefit from greater market power and more resources, both financial and managerial, that can be committed to the acquisition. Our results on the role played by pre-acquisition performance suggest that firms tend to be more risk-averse when suffering from performance shortfalls: when performing poorly, firms are more cautious in their foreign market expansion and thus prefer the lower risks associated with advanced institutional contexts rather than venturing into more uncertain emerging market contexts.

Experience in the same geographic area has a negative effect on the likelihood of executing an acquisition in an emerging market versus a developed market, which is fully consistent with the literature suggesting that for any host location, there is an optimal degree of embeddedness after trading off the costs of embeddedness against the benefits (Buckley and Munjal, 2017). Hence, this result may indicate that there is a saturation effect in cross-border acquisition decisions, in that the propensity to enter emerging markets is lower for firms that already have operations in the same geographic area. This interpretation is also in line with the positive effect of our control variable of the target market size, in that larger markets encourage foreign investment thanks to the greater business opportunities they provide.

The argument underlying our first set of hypotheses is that at increasing formal institutional distance between the home and the host country in terms of regulatory efficiency distance (H1a), country governance (H1b) and financial development (H1c), firms from advanced economies will be less likely to acquire in an emerging market economy relative to an advanced economy. The coefficients are negative and significant for the regulatory ($\beta = -0.30$, p -value < 0.01) and the financial ($\beta = -2.04$, p -value < 0.05) dimensions of distance. In contrast, H1b did not receive support. It is, however, worth noticing that, although not significant, our variable of country governance showed the expected negative sign. H2, which refers to the negative effect of informal institutional distance, did not receive support: the coefficient for cultural distance was significant and positive ($\beta = 0.60$, p -value < 0.05).

In our third set of hypotheses, we argued that the negative relationship between both formal institutional distance (H3a) and informal institutional distance (H3b) and the likelihood of acquiring in an emerging market will be mitigated by the firm's context experience. The results provide evidence of heterogeneous effects of context experience. The hypothesized moderating effect is negative and significant for the interaction *regulatory efficiency distance * context experience* ($\beta = -0.33$, p -value < 0.01). As long as the interaction between *financial development distance * context experience* is concerned, the interaction terms also confirm our prediction ($\beta = -0.84$, p -value < 0.05). However, the coefficient of the interaction term of *country governance distance * context experience* does not provide support for our hypothesized effect, thus indicating that the firm's context experience does not shape the effects of distance at political levels. Hence, the impact of formal institutions, with the exception of country governance, is reduced in the presence of context experience, because experience in institutionally similar environments provides firms with strategies to cope with the institutional voids of emerging markets.

Finally, in terms of informal institutional distance, the interaction term *cultural distance* * *context experience* is positive and significant ($\beta = 1.29$, p -value < 0.01), thus suggesting that context experience strengthens the positive relationship between cultural distance and the likelihood of acquiring in emerging markets. Overall, our findings indicate that formal and informal distances have different effects and that the various sources of formal distance actually affect in a heterogeneous way the propensity of firms to acquire in emerging markets.

Robustness test

To test the robustness of our results, we conducted further analysis. We checked and found a significantly high and negative correlation of our dependent variable with the Corruption Perception Index. Thus, we used this index as a new dependent variable and run the OLS model. Because this variable is negatively correlated with the likelihood of entering emerging markets, since they are perceived to be corrupted, we expected coefficients to have opposite signs relative to those obtained in Table 4. The results obtained in the robustness test were fully consistent with this expectation and showed similar patterns to those in Table 4. In particular, our hypotheses H1a–H1c on the effects of regulatory efficiency, country governance and financial development distance were all supported. Our hypothesis H2 on the effect of informal institutional distance confirmed the findings obtained in our main model. Finally, our hypotheses H3a and H3b on the moderating effects of context experience on formal and informal institutional distance were also supported, therefore, confirming our results. Full results are available from the authors upon request.

Discussion

The formal institutional distance between the home and the host country increases the costs arising from the unfamiliarity and relational hazards, thus potentially discouraging cross-border acquisitions in emerging markets (Xu and Shenkar, 2002). Distances in regulatory efficiency and financial development act as entry barriers for foreign investors and discourage firms from advanced economies from entering emerging countries (Contractor et al., 2020). Specifically, high regulatory efficiency distance makes it more difficult to predict market conditions (Miller and Kim, 2013), hampers a firm's ability to adapt to the local environment (Contractor et al., 2020), and hence increases its liability of foreignness (Mayrhofer, 2004). Similarly, distance in financial development negatively affects the likelihood of entering emerging markets, since, with rising differences in terms of financial efficiency and stability, investment projects become riskier (Peng and Heath, 1996; Li and Atuahene-Gima, 2002). However, the development of experience-based capabilities derived from a firm's embeddedness in similar institutional contexts mitigates the liability of foreignness and makes firms less sensitive to the different dimensions of distance. Indeed, acquiring firms may exploit their context experience and leverage various strategies that have already been developed to address the institutional voids encountered in other emerging markets (Marquis and Raynard, 2015). Hence, the more they are experienced, the greater confidence they will have that they can successfully manage the complexities and hazards related to both regulations and financial markets.

The lack of significance on the country governance dimension of formal institutional distance raises intriguing implications. Indeed, it may imply that, although usually representing an important determinant of the cost of doing business (Berry, 2013), political hazards associated with country governance in emerging markets may be considered a risk that has to be taken on to be an insider in the target market: political frictions are distinguishing features of emerging markets (Musacchio et al., 2015) and may hence simply

be part of the game of entering an emerging market. Besides, because political instability may allow firms to exploit information asymmetries within and across markets (Peng and Heath, 1996; Li and Atuahene-Gima, 2002) and acquire locally available resources (Buckley and Munjal, 2017), foreign investors may be more willing to accept distance related to a country's governance.

As a consequence, our findings suggest the need to interpret sources of distance as actually posing different barriers to firms, which implies that the lifecycle of the investment should be carefully considered (Contractor *et al.*, 2020). Indeed, while regulatory efficiency and financial development may represent barriers that discourage entry, country governance could be seen rather as a barrier to exit potentially affecting future subsidiary divestment (Heinsz and Delios, 2004): when a country's governance is characterized by high levels of political instability, it may be difficult for firms willing to divest to find potential acquirers or, again, the subsidiary may be nationalized. These require firms to carefully consider also the sunk costs associated with their foreign investments (O'Brien and Folta, 2009; Berry, 2013).

Opposite to our prediction, the effect of informal institutional distance suggests that cultural distance may actually not represent a key determinant of the choice to execute acquisitions into emerging versus advanced economies. Indeed, once a firm has accepted coping with cultural distance in its internationalization strategy, it will be more likely to choose to enter emerging markets rather than developed markets to exploit their greater growth opportunities, the potential efficiency gains, along with closeness to other interesting markets and opportunities to exploit already existing technologies. This is even more important considering our time window of observation: in the aftermath of the global financial crisis, the expansion into emerging markets enabled firms to cope with the negative conditions for doing business in their home markets. It is also worth noticing that cultural factors including language, customs, colonial history, value systems, trade history, etc. may be similar in the two sets of contexts (Meyer *et al.*, 2011), which, in turn, contributes to closing cultural gaps by facilitating the convergence of cultures. For example, the fact that English is spoken as a foreign language in many countries contributes to making them more similar than they were in the past. Furthermore, context experience acts as a booster: as long as firms are willing to enter culturally distant countries, they are more likely to opt for emerging market contexts by virtue of their growth prospects, and this is further enhanced if firms also benefit from prior experience in institutionally similar contexts.

Overall, the patterns of our findings are in line with prior studies suggesting the importance of examining the multidimensionality of institutional distance (Berry *et al.*, 2010; Kostova *et al.*, 2020), especially by separating its formal and informal dimensions and by further disentangling their sources (Yang *et al.*, 2022; Zheng *et al.*, 2022). Also, context experience represents an important contingency factor that shapes the effects of formal and informal dimensions of institutional distance on cross-border acquisition decisions in emerging markets relative to advanced economies.

Managerial implications

Our study also provides guidance for managers. First, managers should be aware that different dimensions of formal institutional distance may raise different barriers with different timings. This requires a careful assessment of the nature and role of the various dimensions of distance to avoid focusing solely on barriers to entry that may have an immediate impact on a firm's choices, such as the development of financial systems, while underestimating potential exit barriers. Indeed, in some cases, divestment may be complicated by country governance issues, e.g. regime change (Heinsz and Delios, 2004).

Second, emerging markets are highly attractive in terms of growth opportunities and firms equipped with prior context experience, therefore, have comparatively more

opportunities to enter distant institutional environments. Nevertheless, managers equipped with context experience may run the risk of undervaluing the effect of various sources of distance at both formal and informal levels. Thus, cross-border acquisitions in emerging markets should be cautiously approached, in view of barriers that may prevent exit.

Finally, when trying to anticipate future competitive dynamics and to identify other potential acquirers in a bidding process, firms entering emerging markets should consider as potential bidders not only firms that are already competing in the same geographic area or region but also firms that have experience in other emerging countries. This, in turn, could have implications both in terms of negotiation with the target and acquisition premium and, hence, on the value creation for the acquiring firm's shareholders.

Concluding remarks

Cross-border acquisitions in emerging markets represent an intriguing research context to explore the multidimensionality of institutional distance and the potential moderating effects played by a firm's context experience. Multiple studies have highlighted gaps in the literature in terms of the need to explore the differences associated with various dimensions of distance (Berry *et al.*, 2010; Kostova *et al.*, 2020). With our study, we contribute to filling this gap by addressing the heterogeneous effects played by formal and informal institutions (Yang *et al.*, 2022; Zheng *et al.*, 2022) and disentangling the concept of formal institutional distance into its dimensions of regulatory efficiency, country governance and financial development. Thus, we follow the institutional economics tradition, albeit with the heterogeneous effects associated with formal and informal attributes interpreted through the lenses of legitimacy, liability of foreignness and adaptation, as established in the organizational institutionalism perspective. In our conceptual framework, we also offer a more nuanced perspective of the contingency factors that may shape the role played by both formal and informal institutional distances by exploring the effect of a firm's context experience. In doing so, we join the ongoing conversations on the important role played by a firm's experiential endowment in shaping corporate growth decisions (e.g. Rabbiosi *et al.*, 2012; Perkins, 2014) and propose an original construct of experience that may be relevant when exploring acquisitions in emerging *versus* developed markets.

Our study is of course not without limitations, which may, however, inspire new avenues for future research. First, while single-country studies are a common practice in current research on institutional distance (Arslan and Larimo, 2011; Yang *et al.*, 2022; Zheng *et al.*, 2022), this issue is well recognized as possibly raising a concern in terms of whether estimated distance effects reflect genuine distances or are rather guided by other country-level factors (Van Hoorn, 2020). In light of this, future research may extend our framework and explore cross-border acquisition decisions by firms located in other developed countries in order to identify potential country-of-origin effects (Carril-Caccia, 2020).

Second, our measure of context experience is based on the number of acquisitions made in emerging markets prior to the focal event. Such a measure is specifically focused on experience in the same context gained through the same entry mode. While we investigate the most relevant type of experience for the focus of our analysis, exploring the effects of context experience collected from alternative entry modes may further shed light on the dynamics potentially associated with experiential learning and liability of foreignness. Finally, while we focus on the choice between emerging versus advanced economies, future research might address the heterogeneity among emerging markets in order to deepen our knowledge of the specificities associated with varying institutional contexts.

Overall, this paper attempts to make a contribution to the recently revived academic interest in internationalization into emerging markets (e.g. Contractor *et al.*, 2021) and addresses the multiple calls for a nuanced approach to the differences associated with the

multiple dimensions of institutional distance (Berry *et al.*, 2010; Kostova *et al.*, 2020). We have hence developed a framework that delves into the variations connected with diverse facets of institutional distance and explores the contingent effects played by context experience as a firm-specific resource that creates fungible capabilities. Lastly, this study, by considering two different perspectives on institutional distance – institutional economics and organizational institutionalism – and trying to make a bridge between them, shows how they can be used together to understand the nature and impact of formal and informal institutional distance on firms' decisions, thus bridging two different perspectives on institutional distance.

References

- Andersson, U., Cuervo-Cazurra, A. and Nielsen, B.B. (2020), "Explaining interaction effects within and across levels of analysis", in *Research Methods in International Business*, Palgrave Macmillan, Cham, pp. 331-349.
- Arslan, A. and Larimo, J. (2011), "Greenfield investments or acquisitions: impacts of institutional distance on establishment mode choice of multinational enterprises in emerging economies", *Journal of Global Marketing*, Vol. 24 No. 4, pp. 345-356.
- Bakar, H.O., Sulong, Z. and Chowdhury, M.A.F. (2022), "The role of financial development on economic growth in the emerging market countries of the sub-Saharan African (SSA) region", *International Journal of Emerging Markets*, Vol. 17 No. 3, pp. 789-811.
- Barkema, H.G. Bell, J.H. and Pennings, J.M. (1996), "Foreign entry, cultural barriers, and learning", *Strategic Management Journal*, Vol. 17 No. 2, pp. 151-166.
- Basuil, D.A. and Datta, D.K. (2015), "Effects of industry- and region-specific acquisition experience on value creation in cross-border acquisitions: the moderating role of cultural similarity", *Journal of Management Studies*, Vol. 52, pp. 766-795.
- Berman, N. and Héricourt, J. (2010), "Financial factors and the margins of trade: evidence from cross-country firm-level data", *Journal of Development Economics*, Vol. 93 No. 2, pp. 206-217.
- Berry, H. (2013), "When do firms divest foreign operations?", *Organization Science*, Vol. 24 No. 1, pp. 246-261.
- Berry, H., Guillén, M.F. and Zhou, N. (2010), "An institutional approach to cross-national distance", *Journal of International Business Studies*, Vol. 41 No. 9, pp. 1460-1480.
- Bollaert, H. and Delanghe, M. (2015), "Securities data company and Zephyr, data sources for M&A research", *Journal of Corporate Finance*, Vol. 33, pp. 85-100.
- Buckley, P.J. and Munjal, S. (2017), "The role of local context in the cross-border acquisitions by emerging economy multinational enterprises", *British Journal of Management*, Vol. 28 No. 3, pp. 372-389.
- Carril-Caccia, F. (2020), "Does the origin matter? The effects of cross-border mergers and acquisitions in France", *International Journal of Emerging Markets*, Vol. 16 No. 8, pp. 2136-2154.
- Cerrato, D., Alessandri, T. and Depperu, D. (2016), "Economic crisis, acquisitions and firm performance", *Long Range Planning*, Vol. 49, pp. 171-185.
- Chakrabarti, A. and Mitchell, W. (2016), "The role of geographic distance in completing related acquisitions: evidence from US chemical manufacturers", *Strategic Management Journal*, Vol. 37, pp. 673-694.
- Chakrabarti, R., Gupta-Mukherjee, S. and Jayaraman, N. (2009), "Mars-Venus marriages: culture and cross-border M&A", *Journal of International Business Studies*, Vol. 40 No. 2, pp. 216-236.
- Chan, K., Covrig, V. and Ng, L. (2005), "What determines the domestic bias and foreign bias? Evidence from mutual fund equity allocations worldwide", *The Journal of Finance*, Vol. 60 No. 3, 1495-1534.
- Chen, C.W., Collins, D.W., Kravet, T.D. and Mergenthaler, R.D. (2018), "Financial statement comparability and the efficiency of acquisition decisions", *Contemporary Accounting Research*, Vol. 35, pp. 164-202.

-
- Contractor, F.J., Lahiri, S., Elango, B. and Kundu, S.K. (2014), "Institutional, cultural and industry related determinants of ownership choices in emerging market FDI acquisitions", *International Business Review*, Vol. 23 No. 5, pp. 931-941.
- Contractor, F.J., Yang, Y. and Gaur, A.S. (2016), "Firm-specific intangible assets and subsidiary profitability: the moderating role of distance, ownership strategy and subsidiary experience", *Journal of World Business*, Vol. 51 No. 6, pp. 950-964.
- Contractor, F.J., Dangol, R., Nuruzzaman, N. and Raghunath, S. (2020), "How do country regulations and business environment impact foreign direct investment (FDI) inflows?", *International Business Review*, Vol. 29 No. 2, 101640.
- Contractor, F.J., Nuruzzaman, N., Dangol, R. and Raghunath, S. (2021), "How FDI inflows to emerging markets are influenced by country regulatory factors: an exploratory study", *Journal of International Management*, Vol. 27, 100834.
- Dikova, D., Sahib, P.R. and Van Witteloostuijn, A. (2010), "Cross-border acquisition abandonment and completion: the effect of institutional differences and organizational learning in the international business service industry, 1981-2001", *Journal of International Business Studies*, Vol. 41 No. 2, pp. 223-245.
- Dikova, D., Panibratov, A., Veselova, A. and Ermolaeva, L. (2016), "The joint effect of investment motives and institutional context on Russian international acquisitions", *International Journal of Emerging Markets*, Vol. 11 No. 4, pp. 674-692.
- Ellis, J.A., Moeller, S.B., Schlingemann, F.P. and Stulz, R.M. (2017), "Portable country governance and cross-border acquisitions", *Journal of International Business Studies*, Vol. 48 No. 2, pp. 148-173.
- Estrin, S., Baghdasaryan, D. and Meyer, K.E. (2009), "The impact of institutional and human resource distance on international entry strategies", *Journal of Management Studies*, Vol. 46 No. 7, pp. 1171-1196.
- Galavotti, I., Depperu, D. and Cerrato, D. (2017), "Acquirer-to-target relatedness and target country unfamiliarity in acquisitions: the role of product diversification and international experience", *Management Decision*, Vol. 55 No. 5, pp. 892-914.
- Ghazalian, P.L. and Amponsem, F. (2019), "The effects of economic freedom on FDI inflows: an empirical analysis", *Applied Economics*, Vol. 51 No. 11, pp. 1111-1132.
- Globerman, S. and Shapiro, D. (2005), "Assessing international mergers and acquisitions as a mode of foreign direct investment", in Eden, L. and Dobson, W. (Eds), *Governance, Multinationals and Growth*, Edward Elgar Publishing, Cheltenham, pp. 68-99.
- Henisz, W.J. (2003), "The power of the Buckley and Casson thesis: the ability to manage institutional idiosyncrasies", *Journal of International Business Studies*, Vol. 34 No. 2, pp. 173-184.
- Henisz, W.J. and Delios, A. (2004), "Information or influence? The benefits of experience for managing political uncertainty", *Strategic Organization*, Vol. 2 No. 4, pp. 389-421.
- House, R.J., Hanges, P.J., Javidan, M., Dorfman, P.W. and Gupta, V. (2004), *Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies*, Sage Publications.
- Huang, Z., Zhu, H. and Brass, D.J. (2017), "Cross-border acquisitions and the asymmetric effect of power distance value difference on long-term post-acquisition performance", *Strategic Management Journal*, Vol. 38 No. 4, pp. 972-991.
- Ibrahimi, M. and Liassini, J.E. (2021), "Mergers and acquisitions in Morocco: reality and perspectives", *International Journal of Emerging Markets*, Vol. ahead-of-print No. ahead-of-print.
- Klasa, S. and Stegemoller, M. (2007), "Takeover activity as a response to time-varying changes in investment opportunity sets: evidence from takeover sequences", *Financial Management*, Vol. 36, pp. 19-43.
- Kogut, B. and Singh, H. (1988), "The effect of national culture on the choice of entry mode", *Journal of International Business Studies*, Vol. 19 No. 3, pp. 411-432.

-
- Kostova, T. (1999), "Transnational transfer of strategic organizational practices: a contextual perspective", *Academy of Management Review*, Vol. 24 No. 2, pp. 308-324.
- Kostova, T., Beugelsdijk, S., Scott, W.R., Kunst, V.E., Chua, C.H. and van Essen, M. (2020), "The construct of institutional distance through the lens of different institutional perspectives: review, analysis, and recommendations", *Journal of International Business Studies*, Vol. 51 No. 4, pp. 467-497.
- Kraus, S., Ambos, T.C., Eggers, F. and Cesinger, B. (2015), "Distance and perceptions of risk in internationalization decisions", *Journal of Business Research*, Vol. 68 No. 7, pp. 1501-1505.
- Lebedev, S., Peng, M.W., Xie, E. and Stevens, C.E. (2015), "Mergers and acquisitions in and out of emerging economies", *Journal of World Business*, Vol. 50, pp. 651-662.
- Lee, G.K. and Lieberman, M.B. (2010), "Acquisition vs. internal development as modes of market entry", *Strategic Management Journal*, Vol. 31 No. 2, pp. 140-158.
- Li, H. and Atuahene-Gima, K. (2002), "The adoption of agency business activity, product innovation, and performance in Chinese technology ventures", *Strategic Management Journal*, Vol. 23 No. 6, pp. 469-490.
- Loaba, S. (2022), "The impact of mobile banking services on saving behavior in West Africa", *Global Finance Journal*, Vol. 53, 100620.
- Marquis, C. and Qian, C. (2014), "Corporate social responsibility reporting in China: symbol or substance?", *Organization Science*, Vol. 25 No. 1, pp. 127-148.
- Marquis, C. and Raynard, M. (2015), "Institutional strategies in emerging markets", *Academy of Management Annals*, Vol. 9 No. 1, pp. 291-335.
- Marquis, C., Zhang, J. and Zhou, Y. (2011), "Regulatory uncertainty and corporate responses to environmental protection in China", *California Management Review*, Vol. 54 No. 1, pp. 39-63.
- Mayrhofer, U. (2004), "International market entry: does the home country affect entry-mode decisions?", *Journal of International Marketing*, Vol. 12 No. 4, pp. 71-96.
- Meyer, K.E., Mudambi, R. and Narula, R. (2011), "Multinational enterprises and local contexts: the opportunities and challenges of multiple embeddedness", *Journal of Management Studies*, Vol. 48 No. 2, pp. 235-252.
- Mezias, J.M. (2002), "How to identify liabilities of foreignness and assess their effects on multinational corporations", *Journal of International Management*, Vol. 8 No. 3, pp. 265-282.
- Miller, T. and Kim, A.B. (2013). "Defining Economic Freedom", Miller, A.T., Holmes, K.R. and Feulner, E.J. (Eds), pp.87-94.
- Miller, S.R. and Richards, M. (2002), "Liability of foreignness and membership in a regional economic group: analysis of the European Union", *Journal of International Management*, Vol. 8 No. 3, pp. 323-337.
- Musacchio, A., Lazzarini, S.G. and Aguilera, R.V. (2015), "New varieties of state capitalism: strategic and governance implications", *Academy of Management Perspectives*, Vol. 29 No. 1, pp. 115-131.
- Ojala, A. (2015), "Geographic, cultural, and psychic distance to foreign markets in the context of small and new ventures", *International Business Review*, Vol. 24 No. 5, pp. 825-835.
- O'Brien, J. and Folta, T. (2009), "Sunk costs, uncertainty and market exit: a real options perspective", *Industrial and Corporate Change*, Vol. 185, pp. 807-833.
- Pang, J. and Wu, H. (2009), "Financial markets, financial dependence, and the allocation of capital", *Journal of Banking and Finance*, Vol. 33 No. 5, pp. 810-818.
- Peng, M.W. and Heath, P.S. (1996), "The growth of the firm in planned economies in transition: institutions, organizations, and strategic choice", *Academy of Management Review*, Vol. 21 No. 2, pp. 492-528.
- Perkins, S.E. (2014), "When does prior experience pay? Institutional experience and the multinational corporation", *Administrative Science Quarterly*, Vol. 59 No. 1, pp. 145-181.

-
- Popli, M., Akbar, M., Kumas, V. and Gaur, A. (2016), "Reconceptualizing cultural distance: the role of cultural experience reserve in cross-border acquisitions", *Journal of World Business*, Vol. 51, pp. 404-412.
- Rabbiosi, L., Elia, S. and Bertoni, F. (2012), "Acquisitions by EMNCs in developed markets. An organisational learning perspective", *Management International Review*, Vol. 52, pp. 193-212.
- Romero-Martínez, A.M., García-Muiña, F.E., Chidlow, A. and Larimo, J. (2019), "Formal and informal institutional differences between home and host country and location choice: evidence from the Spanish Hotel Industry", *Management International Review*, Vol. 59 No. 1, pp. 41-65.
- Rottig, D., Muscarella, S. and De Oliveira, R.T. (2019), "Managing formal institutional challenges when entering Cuba: a multinational corporation perspective", *International Journal of Emerging Markets*, Vol. 15 No. 1, pp. 24-49.
- Sacristán-Navarro, M., Cabeza-García, L., Basco, R. and Gómez-Ansón, S. (2022), "It's all about culture! Institutional context and ownership concentration across Europe", *European Management Journal*, Vol. 40, pp. 194-207.
- Schwens, C., Eiche, J. and Kabst, R. (2011), "The moderating impact of informal institutional distance and formal institutional risk on SME entry mode choice", *Journal of Management Studies*, Vol. 48 No. 2, pp. 330-351.
- Slangen, A.H. and Hénnart, J.F. (2008), "Do multinationals really prefer to enter culturally distant countries through greenfields rather than through acquisitions? The role of parent experience and subsidiary autonomy", *Journal of International Business Studies*, Vol. 39 No. 3, pp. 472-490.
- Sutherland, D., Anderson, J., Bailey, N. and Alon, I. (2020), "Policy, institutional fragility, and Chinese outward foreign direct investment: an empirical examination of the Belt and Road Initiative", *Journal of International Business Policy*, Vol. 3 No. 3, pp. 249-272.
- Trąpczyński, P. and Banalieva, E.R. (2016), "Institutional difference, organizational experience, and foreign affiliate performance: evidence from Polish firms", *Journal of World Business*, Vol. 51 No. 5, pp. 826-842.
- Vaara, E., Sarala, R., Stahl, G.K. and Björkman, I. (2012), "The impact of organizational and national cultural differences on social conflict and knowledge transfer in international acquisitions", *Journal of Management Studies*, Vol. 49 No. 1, pp. 1-27.
- Vaccarini, K., Lattemann, C., Spigarelli, F. and Tavoletti, E. (2019), "Managers' psychic distance and its impact on Chinese FDI to Germany in the environmental industry", *International Journal of Emerging Markets*, Vol. 14 No. 1, pp. 155-170.
- Van Hoorn, A. (2020), "Cross-national distance as an explanatory variable in international management: fundamental challenge and solution", *Journal of International Management*, Vol. 26 No. 3, 100773.
- Very, P., Metais, E., Lo, S. and Hourquet, P.G. (2012), "Can we predict M&A activity?", in Finkelstein, S. and Cooper, C. (Eds), *Advances in Mergers and Acquisitions*, Emerald Group, Bingley, Vol. 11, pp. 1-32.
- Wang, L. and Zajac, E. (2007), "Alliance or acquisition? A dyadic perspective on interfirm resource combinations", *Strategic Management Journal*, Vol. 28, pp. 1291-1317.
- Wang, L., Schweizer, L. and Michaelis, B. (2020), "Experiential learning for Chinese companies to complete cross-border acquisitions: the case of Chinese acquirers", *International Journal of Emerging Markets*, Vol. 16 No. 4, pp. 674-695.
- Xu, D. and Shenkar, O. (2002), "Note: institutional distance and the multinational enterprise", *Academy of Management Review*, Vol. 27 No. 4, pp. 608-618.
- Yang, Y., Xu, J., Allen, J.P. and Yang, X. (2022), "Strategic asset-seeking foreign direct investments by emerging market firms: the role of institutional distance", *International Journal of Emerging Markets*, Vol. ahead-of-print No. ahead-of-print.
- Zaheer, S. and Mosakowski, E. (1997), "The dynamics of the liability of foreignness: a global study of survival in financial services", *Strategic Management Journal*, Vol. 18 No. 6, pp. 439-463.

Zheng, B., Wang, Y., Kamal, M.A. and Ullah, A. (2022), "The influence of cultural and institutional distance on China's OFDI efficiency: fresh evidence from stochastic Frontier gravity model", *International Journal of Emerging Markets*, Vol. 17, pp. 98-119.

Zhu, P., Jog, V. and Otchere, I. (2014), "Idiosyncratic volatility and Mergers and acquisitions in emerging Markets", *Emerging Markets Review*, Vol. 19, pp. 18-48.

About the authors

Donatella Depperu is Professor of Strategic Management at the Faculty of Economics, Università Cattolica del Sacro Cuore, Milano, Italy. Her research is on firms' internationalization, growth strategies and competitive strategies of firms in different contexts. She is a member of the editorial board of the *European Management Review* and serves as reviewer for some international journals. Her research has appeared in *Long Range Planning*, *International Business Review*, *Management Decision* among others.

Ilaria Galavotti, PhD, is Assistant Professor in Management at the Faculty of Economics and Law, Università Cattolica del Sacro Cuore, Piacenza, Italy. Her research focuses on firms' growth strategies, mergers and acquisitions and the role of firm experience. She has published in refereed journals including *European Management Review*, *Management Decision* and *Eurasian Business Review*. Ilaria Galavotti is the corresponding author and can be contacted at: ilaria.galavotti@unicatt.it

Federico Baraldi got his Master degree in Management at the Università Cattolica del Sacro Cuore, Milano, Italy. He is also an entrepreneur and, in his career, he has developed an interest in the business context of emerging markets.