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RESEARCH ARTICLE

Does economic freedom distance affect long-run post-acquisition performance and ownership level in cross-border acquisitions?

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Abstract Using a large international sample of 35,798 cross-border acquisition (CBA) deals, we find strong evidence that economic freedom distance affects long-run post-acquisition performance and ownership level. We build our arguments using organizational imprinting theory to show that greater economic freedom distance leads to higher post-acquisition performance. However, our findings show that greater ownership level in the target firm adversely affects the imprinting effects in CBA deals. In addition to arbitrage advantages, higher economic freedom distance increases information asymmetry risks for MNEs, prompting them to opt for lower ownership levels. Finally, we demonstrate that ownership decisions of MNEs from emerging economies differ significantly from those that domicile in developed countries.

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Introduction

Cross-border acquisition (CBA) has evolved as an important strategic initiative for MNEs to expand their business, leverage their capabilities abroad and diversify into related markets. Global CBAs have reached its third-highest deal value ($2.4 trillion) in 2016 with 17,639 deals and the aggregate volume of $3.2 trillion. Prior studies (Berry et al. 2010; Malhotra and Gaur 2014) have argued that CBA as an entry mode decision of MNEs is determined by institutional factors as well as the capabilities and competitiveness of the market. These studies examine how institutional factors in the acquirer and target country affect the firm-level strategic decisions (Peng et al. 2008; Gao et al. 2010). In addition to the individual factors, Kostova (1999) argues that differences in institutions of the acquirer and target country captured via institutional distance will affect the MNEs' decisions. The institutional distance between these countries allows acquirers to (1) absorb new capabilities and transfer their existing capabilities and (2) experience 'liabilities of foreignness,' which is regarded as an important factor in determining ownership decisions, and subsequently

having an effect on the MNE's performance (Dikova 2009).

Economic freedom represents an important institutional dimension (Zhang et al. 2017) and describes the extent to which a country is a market economy (Berggren 2003). Prior studies (Meyer et al. 2009) have examined the role of target country's economic freedom on entry mode choices, and some argue that the level of market openness in the target country affects the performance of MNEs (Errunza and Senbet 1981; Doukas and Travlos 1988). Economic freedom levels vary across different countries, and this variation is significant in the CBA planning. However, research has been underdeveloped about how differences in economic freedom between the acquirer and target country influence the internationalization activities of MNEs.

Based on the 'imprinting effect' (Stinchcombe 1965; Mallon and Fainshmidt 2017), economic freedom differences between acquirer and target countries may provide arbitrage opportunities for MNEs. Such opportunities allow MNEs to imprint their capabilities in the target firms (Cuervo-Cazurra and Genc 2008) and thereby improve the post-acquisition performance. Given these arbitrage advantages (Gaur and Lu 2007) and information costs (Gordon and Bovenberg 1996) associated with economic freedom distance, we investigate whether economic freedom distance affects MNE's long-run post-acquisition performance. Despite the effect of institutional distance, ownership level in the target firm is considered as an important mechanism by which MNEs can gain further from the arbitrage advantages (Wright et al. 2005). Hence, we examine the extent to which ownership choice in the target firm moderates the relationship between economic freedom distance and MNE's long-run post-acquisition performance.

To facilitate long-run synergy, acquirers that require higher ownership level should select target firms carefully, whereas acquirers that prefer less ownership level may be less concerned about integrating the target firm fully. To determine the optimal level of ownership in CBAs, acquirers must consider the extent of information costs in the internationalization process. Hence, we examine how economic freedom distance impacts acquirers' ownership level in CBAs. Recent scholarship suggests that institutional distance between countries affects the level of equity taken by the MNEs in CBAs (Malhotra and Gaur 2014; Surdu and Mellahi 2016). Traditionally, transaction cost economics (TCE) scholars suggest that both external and internal uncertainty increases a MNE's difficulty of monitoring domestic partners in the target operating environment (Williamson 1991). Internal uncertainty arises from the real difference between the acquirer and target country. Hence, MNEs from acquirer country encounter unfamiliarity with the conditions of the target country. Institutional theorists suggest that MNEs overcome this uncertainty by sharing their equity ownership with the target firm (Xu and Shenkar 2002; Estrin et al. 2007). However, higher equity participation will reduce the transaction costs associated with internal uncertainties and thus improve governance efficiency (Brouthers and Hennart 2007; Yang 2015). In the light of this paradox, literature lacks an adequate understanding of the role of economic freedom distance in ownership decisions pertaining to the control and coordination of target firm's operations.

The inclusion of direction in the research of institutional distance is a recent phenomenon in IB literature (Chikhouni et al. 2017; Konara and Shirodkar 2018) where the focus is to make a distinction in the CBA deals that involve acquirers entering the target countries with a stronger or weaker institutional environment than their origin country. Hence, we relax the assumption that economic freedom distance between countries makes a symmetric effect on the ownership level, i.e., prior studies (Malhotra and Gaur 2014; Dow et al. 2016) have ignored the 'direction' effect in the ownership decisions of the acquirer. Therefore, in this study we account for the directionality in the CBA flows and examine whether it makes a significant impact on the CBA ownership level. While there is growing evidence on how economic freedom of both acquirer and target country affects internationalization activities, to our knowledge, there are at least three unresolved questions in the extant literature (1) how does economic freedom distance influence acquirers' long-run performance; (2) how does ownership level moderate the relationship between economic freedom distance and long-run post-acquisition performance; (3) how economic freedom distance impacts ownership stake decisions of acquirers; and does it vary for emerging and developed economies?

We examine a sample of 35,798 CBAs from 36 (49) acquirer (target) countries over the period 1995–2014. We find that greater economic freedom distance leads

to a higher post-acquisition performance. As economic freedom distance increases, institutionally imprinted capabilities of MNEs are transferred to the subsidiary levels for improving the long-run post-acquisition performance. This finding is consistent with extant evidence on the 'imprinting argument' where the strong home institutions transfer their capabilities to the target firms to enhance competitive advantages (Campos and Giovannoni 2007; Kriauciunas and Kale 2006). However, we find that MNEs with larger equity ownership in the target deliver negative post-acquisition performance than their counter parts. MNEs prefer shared ownership through partial acquisitions to minimize adverse selection risk. By accounting for 'direction' of CBA flow, we demonstrate that ownership choices of D-MNEs (MNEs from developed economies) and E-MNEs (MNEs from emerging economies) are same in the target firms that domicile in developed economies. Our findings on the impact of economic freedom distance are robust to alternative proxy and different model specifications.

We make several contributions to the internationalization literature. First we examine the impact of economic freedom distance, an important but overlooked institutional dimension. Second, we add to the evidence on the choice of ownership of MNE to benefit from the arbitrage opportunities in the economic freedom distance. The ownership strategy has been considered as one of the important mechanisms in target's performance (Zhao et al. 2017). We argue that in terms of capturing the arbitrage opportunities, partial ownership reduces the information asymmetry risk and facilitates easier transfer of imprinted capabilities to the targets during post-integration phase, thus enhancing long-run performance of the MNEs. In this context we contribute to the ongoing discussions on the moderating effect of ownership stake on the relation between distance and acquirer's long-run performance. Third, by accounting for 'direction' of CBA flow (Hernández and Nieto 2015; Prasadh and Thenmozhi 2019), we show that ownership level of MNEs in the target firms is not rooted only in the perception of internal uncertainty, MNE's experience, but also in the 'country of origin' (Chikhouni et al. 2017; Hernández and Nieto 2015).

The rest of our paper is structured as follows. First, we discuss the related literature and formulate our hypotheses. We then describe our data and methodology before reporting our empirical results on long-run post-acquisition performance and ownership decision. The paper concludes with a discussion of the contributions, implications and limitations of the study.

Theory and hypotheses

Economic freedom in international business

The level of economic freedom refers to *the degree to which it implies the possibility of MNEs entering into a free-will contract designed within the regulatory frameworks that uphold contracts and defends against the risk of misappropriation by the governments* (Berggren 2003). The concept of a free market system gives impetus the entry of new firms by pushing for innovation and rigorous competition (Gwartney et al. 2004). On the other hand, in nations with comparatively lesser economic freedom, business opportunities are undermined (Aybar and Ficici 2009). Therefore, a high-level economic freedom of an economy is an important construct of good institutions (Anokhin and Wincent 2012) that can influence the business decisions at both micro- and macroenvironment.

Specific to M&As, Zhang et al. (2017) argue that the probability of CBA completion is positively associated with the levels of economic freedom of the target, acquirer's parent and the acquirer. As such, there is considerable interest in the CBA flows and their long-run gains. In particular, CBA literature has focused on the influence of country-level characteristics differences between the acquirer and target firms (Xie et al. 2017). For example, extant studies have explored the impact of cultural distance (Ahern et al. 2015) and financial deepening (Di Giovanni 2005) on M&A volume. Extant research also examined the impact of geographic distance (Malhotra and Gaur 2014), religious distance (Dow et al. 2016), religious freedom (Prasadh and Thenmozhi 2019), linguistic distance (Cuypers et al. 2015) and psychic distance (Chikhouni et al. 2017) on CBA ownership level. Apart from economic freedom of each acquirer and target country, if the economic freedom distance between the countries is positive, acquirer firms that domicile in high economic freedom countries shall transfer their capabilities to the target firm (Zhang

et al. 2017). On the contrary, in CBA deals with negative economic freedom distance, it is more likely the weaker institutions in acquirer country are inefficient in providing resources to firms to develop innovative products (Cuervo-Cazurra and Genc 2008) and thereby they invest in that target firms that domicile in a free market economy (Thomas et al. 2007). Thus, in sum, we suggest that the extent of arbitrage opportunities available for MNEs in the economic freedom distance could affect long-run performance and ownership strategy.

Economic Freedom distance and long-run post-acquisition performance

Previous literature indicates that average CBAs experience an increase of 7.5% in the value of the combined firms in comparison with the preacquisition value (Seth et al. 2002). Healy et al. (1992) measured the performance gain through post-operating cash flow of domestically merged firms and show that there is a significant improvement in asset productivity after the merger. Some consensus has emerged among the scholars of domestic acquisitions that the target firm's shareholders always generate positive gains (Bradley et al. 1988). However, research conclusions are somewhat divergent with respect to the gains of acquirers and the combined firms (Huang et al. 2017). Also, considerable debate continues on the country-level and firm-level constructs that contribute to the success of CBAs.

Extant literature examines the impact of institutional distance on the ownership level and target's performance after acquisition (Gaur and Lu 2007; Ambos and Håkanson 2014). Previous studies (Gaur and Lu 2007; Mallon and Fainshmidt 2017) argue that institutional differences between acquirer and target country offer arbitrage opportunities for MNEs. Such opportunities come about for MNEs in two different ways. First, the acquirers imprint their capabilities on the target firm which is derived from their regulatory environment. Cuervo-Cazurra and Genc (2008) argue that firm-level capabilities and knowledge imprinted with the acquirers that domicile in strong institutional environment can be advantageous to the target firms. For instance, MNEs from stronger institutional environment transfer their imprinted capabilities to the target firms which form a major element in their competitiveness, particularly for the targets in institutionally weaker economies, where the firms at the domestic level may not be positions to invest in innovative outcomes (Mallon and Fainshmidt 2017). Acquirers from the well-developed institutions emphasize the targets to develop innovative technologies, adopt more effective management capabilities and achieve better production efficiencies that enhance the competitive advantages of the MNEs (Kriauciunas and Kale 2006). Second, MNEs enter into target country to 'escape' from the regulatory framework posed by its home institutions. Acquirers from weaker institutional environments locate their research and development (R&D) centers in countries which have stronger institutions for protecting their dynamic capabilities (Gaur and Lu 2007). Thus, MNEs can benefit from arbitrage opportunities as institutional distance increases in either of the CBAs. Hence, we expect the following:

H_1 Larger the economic freedom distance, higher the long-term post-acquisition performance in CBAs.

Moderation effect of ownership strategy

Meyer et al. (2009) argue that ownership strategy is an important mechanism for an acquirer to improve its gains during the imprinting effect. Therefore, we next examine whether the ownership level moderates the impact of economic freedom distance on long-run post-acquisition performance. The risk of misappropriation is very high when MNEs transfer their capabilities to the target in the distant deals (Contractor et al. 2016). Full acquisitions enhance the organizational imprinting effect in the economic freedom where full ownership facilitates the MNEs to transfer their firm-level capabilities to the target and improve their performance to a greater extent. On the contrary, shared ownership structure reduces the challenges that arise from information asymmetry where the ownership structure allows the target firm to reveal accurate information about the operating environment and ensures cooperation during integration phase (Malhotra and Gaur 2014). In addition, partial ownership structure allows MNEs to navigate unfamiliarity hazards in the target country with lower economic freedom because domestic partners can help the acquirer firms to navigate operating environment (Makino and Delios 1996). Therefore, we argue that partial ownership in the target firm helps the MNEs to

reduce the information costs and capitalize the arbitrage advantages associated with the 'imprinting effect' in the economic freedom distance. Hence, we expect the following.

H_2 Larger the economic freedom distance, lower ownership level improves the long-term post-acquisition performance.

Economic freedom distance and subsidiary ownership strategy

Although full ownership by the acquirers may improve the arbitrage advantage in the CBA deals, acquirers has to consider the costs associated with such ownership structure. Acquirers with inadequate knowledge of the target country face market imperfections—adverse selection and moral hazard—which erode the potential gains in the CBAs. Information asymmetries in economic freedom distance impose the transaction cost in two different ways. First, the adverse target selection by the acquirers where incomplete information may increase the acquisition premium and lead to the choice of unsuitable targets (Ragozzino and Reuer 2011) in the economies with the weak institutional environment. Second, acquirer encounters difficulty in monitoring and coordinating the target firm's practices and processes. Hence, greater ownership level in the target may increase the transaction costs associated with economic freedom distance.

However, acquirers entering weak institutional environment may prefer partial ownership structure for three reasons—firstly, acquirers face 'liability of foreignness' in the target country and partial acquisitions help to alleviate the unfamiliar hazards (Makino and Delios 1996) because the domestic partners can help them to operate in the target country environment. Hence, acquirers prefer partial ownership structure to minimize the adverse selection in CBAs. Chen and Hennart (2004) argue that acquires opting for shared ownership will eventually create a hostage effect in CBAs where targets signal their confidence for the full acquisitions eventually, which reduces the post-moral hazards for the acquirer. Secondly, by accepting partial ownership, target firm ensures that integration phase succeeds because successful integration assures its own gains in long run. Thirdly, in very distant locations, information asymmetry challenges become accentuated and foreign acquirers have difficulty discovering them in CBAs (Anderson and Gatignon 1986; Gomes-Casseres 1990). Hence, shared ownership incentivizes the target firm to reveal accurate information of the operating environment and ensures synergy realization in integration phase. In the realm of discussion supporting partial ownership structure, we expect the following.

H_3 Larger the economic freedom distance between countries, lower the acquired equity stake.

Data and sample

Sample

Following the previous studies (Ahern et al. 2015; Malhotra and Gaur 2014; Dow et al. 2016), our CBA data are drawn from Thomson Financial's Securities Data Company (SDC). Our sample spans from 1995 to 2014 to match the availability of the economic freedom index. Our study arrives at the estimation sample by enforcing the following filters. First, it focuses on cross-border transactions only. Second, we removed all uncompleted transactions, since the SDC does not include any information on whether these CBA deals subsequently materialized in future. Third, our sample omits the CBAs of repurchases, recapitalizations, self-tenders, remaining stakes, spin-offs, leveraged buyouts and privatizations. The final sample comprises of 35,798 cross-border transactions during 1995–2014[1], and it features 36 unique acquirer countries and 49 unique target countries.[2] Since our methodology on post-acquisition performance requires acquirer financial data from Thomson Datastream for 3 years subsequent to the acquisition, the sample for long-run performance model is further filtered to 9686 cross-border deals.

Dependent variables

We measured acquirer long-run post-acquisition performance by return on assets (ROA), which is our dependent variable. ROA has been used in previous studies

[1] The data of economic freedom is available only after the year 1995.

[2] See Table 1 for the full list of countries represented by this dataset.

Table 1 Inbound and outbound CBAs *Source*: Data are from SDC platinum M&A database and compiled by author

Target country	No. of deals	%	Acquirer country	No. of deals	%
USA	6432	17.97	USA	9533	26.63
UK	3838	10.72	UK	4326	12.08
Germany	2840	7.93	Germany	2488	6.95
Canada	2325	6.49	Canada	2468	6.89
France	2007	5.61	France	2354	6.58
Australia	1593	4.45	Japan	1374	3.84
Netherlands	1066	2.98	Sweden	1350	3.77
Italy	1016	2.84	Netherlands	1271	3.55
Sweden	973	2.72	Switzerland	1228	3.43
China	946	2.64	Australia	860	2.40
Spain	933	2.61	Finland	648	1.81
Brazil	809	2.26	Belgium	615	1.72
Switzerland	760	2.12	Italy	615	1.72
India	741	2.07	Spain	604	1.69
Belgium	575	1.61	Ireland-Rep	589	1.65
Norway	570	1.59	Denmark	542	1.51
Denmark	557	1.56	India	531	1.48
Poland	437	1.22	Norway	520	1.45
Finland	433	1.21	Singapore	518	1.45
Argentina	424	1.18	Hong Kong	474	1.32
	35,798			35,798	

Table lists the first 20 target and acquirer countries based on number of deals in our sample

(Thenmozhi and Narayan 2016) as a measure of firm performance. ROA, measured as earnings before interest, taxes, depreciation and amortization (EBITDA) scaled by book value of assets (BVA), serves as the proxy for the cross-border acquirer's operating performance for 3 years after the year of acquisition and is obtained from the Thomson Reuters Datastream database. We measure ownership level as a continuous variable (Cuypers et al. 2015; Dow et al. 2016) that ranges from 0.1% to 100%, as accounted in the SDC platinum database. By measuring ownership level as continuous variable, we avoid the classification—partial and full control, by doing so we investigate whether the factors that influence 10% ownership level are similar to those factors influencing 90% ownership level.

Independent variable

Economic freedom distance

Economic freedom describes the extent to which a country is a market economy (Berggren 2003). Economic freedom index of a country, which is designed to measure the degree to which the policies and the institutions of a country are supportive of economic freedom. We source the economic freedom index from the heritage foundation, and it is based on 12 quantitative and qualitative factors, grouped into four broad categories: Rule of Law, Government Size and Regulatory Efficiency and Open Markets. The index is presented on a 0–100 scale. Economic freedom distance indicates the difference of economic freedom levels between the acquirer (i) and target (j) countries in the year 't' of acquisition.

Control variables

We include several country variables at the country level that could influence ownership level and long-run post-acquisitions performance. These factors are classified into four different national institutions, and they are described below.

Guided by previous literature and empirical evidence on ownership level (Surdu and Mellahi 2016) we included several control variables in the study. Difference in legal systems can influence CBA

negotiations (Reuer et al. 2004) and thereby influence the ownership decisions. From La Porta et al. (1999), we record both the acquirer and target domicile country's legal origin as French, German or Scandinavian Civil Law or English Common Law. To account for the social differences, we control for the similarity between acquirer and target country in religion and language (Dow et al. 2016). Following Kogut and Singh (1988), we combine Hofstede's et al. (2010) six cultural dimensions into a single-composite variable and used it as a proxy for cultural distance. Macroeconomic factors of the acquirer and the target countries may impact the internationalization decision of MNEs—high economic growth can drive CBA volumes and the ownership decisions. We use GDP (Malhotra and Gaur 2014) and GDP per capita (Ahern et al. 2015) as proxies for economic performance. Size of the financial markets also drives CBA activity (Di Giovanni 2005). We use equity market development measured as stock market capitalization-to-GDP ratio as a proxy for the size of the financial markets. Bilateral investment treaties pledge against the nationalization of private enterprises and resolves investor dispute. We use a dummy variable to capture the effects of a bilateral investment treaty between the countries of the acquirer and the target at the time of the CBA announcement. To control for the impact of spatial geography on CBA volumes and ownership structure, we include the geographic distance between the acquirer and target country (Ahern et al. 2015; Malhotra and Gaur 2014). To control for the impact of international trading-level activity of MNEs, we use the ratio of imports and exports to GDP.

For deal-specific variables, we use an indicator variable '1' to indicate whether the mode of payment in the deal is cash. Stock mode of payment reduces information asymmetry in the deals by linking the acquirer stock price to the payment (Shleifer and Vishny 2003), and thereby it improves both firms' choice of control and long-run performance of the acquirer. We also control for the method used by the acquirer to bid for the target firms. We use an indicator variable '1' to indicate whether the mode of acquisition is tender offer. In a tender offer, acquirers make an offer to the shareholders of the target firm to purchase their shares, almost always at a premium to the prevailing market price of the target equity share. Given such tender offer deals, acquirers may prefer higher equity stake and the premium price may have an adverse impact on acquirer's long-run performance. We also control for the prior cross-border experience of the acquirer with the indicator as '1' if the acquirers have made a prior CBA in the target country. Acquirers with foothold in target firm have less asymmetric information on valuation of the target assets, and we control for foothold using an indicator variable '1' if the acquirer had any prior ownership in the target firm. It is more expensive to acquire equity stakes in the public firm than in private firm. Hence, we also control for public status of target firm using a dummy variable. Information asymmetry challenges in CBAs get manifested in two different problems: adverse selection *ex ante* and moral hazards *ex-post* (Malhotra and Gaur 2014). CBA in a related industry means that the MNE does not require additional effort to learn about that industry (Reuer and Koza 2000) in the new operating environment. Acquirers who possess prior knowledge on the buyers, supplies and other stake holders in the related industry require less effort to realize the true worth of the target firm (Reuer et al. 2012). In line with Malhotra et al. (2011), we use a binary variable to indicate related CBAs, where we indicate related acquisitions as '1,' when the acquirer and target firms had the same three-digit SIC code. We control for privatization deals, in which the target country government is a seller. Foreign firms may forfend higher equity stake in such targets to avoid the risk of appropriation by the target government partners (Doh et al. 2004).

Following Huang et al. (2017), we control for financial characteristics of acquirers that may affect post-acquisition integration and performance. We control for the size of the firms using total assets of the acquirer. Debt/equity ratio is calculated using total debt divided by total equity of acquirer. Chari et al. (2009) argue that developed market acquirers realize positive returns when the acquirer gains majority control in an emerging market target. Hence, we control for percentage of a target's ownership acquired by firm. Diversified firms employ different post-integration strategies in a CBA deal. We control for business segments of a foreign acquirer using four-digit SIC codes. We control for the number of all other cross-border acquisitions made by an acquirer during the three intermediate years, as these are important strategic changes made by a foreign acquirer. To address potential endogeneity concerns, we use lagged dependent variable, i.e., acquirer's performance

(ROA) 1 year prior to the acquisition in our models on long-run post-acquisition performance. We source deal and firm-level variables from SDC platinum database.

Moderators

D-MNEs involve in CBAs to exploit their dynamic capabilities in the target country, and E-MNEs participate in CBAs to absorb the competitive advantages of the acquirer country (Child and Rodrigues 2005). Since the strategic objectives of CBAs by E-MNEs are different than those by D-MNEs, we argue that ownership decisions of MNEs are not only influenced by economic freedom distance, but also by the 'country of origin' of both acquirer and target firm. According to the spring-board argument (Luo and Tung 2007), E-MNEs may need full ownership level to acquirer the dynamic capabilities of the firms that domicile in developed economies. However, to encounter liability of foreignness (Luo and Rui 2009) they may prefer partial ownership structure too. Distance literature neglects these differences in ownership choices made by D-MNEs and E-MNEs in different target economies. Hence, we argue that direction of CBA flow will moderate the relationship between economic freedom distance and ownership level. CBA direction is measured as a categorical variable based on the location of acquirer and target countries and classify emerging and developed economies based on Prasadh and Thenmozhi (2019).

Methodology

For empirical test of hypotheses, we regress long-term post-acquisition performance of a cross-border acquirer as a function of economic freedom distance between acquirer (i) and target (j) countries when controlling for both deal-level and firm-level characteristics:

$$\begin{aligned}&\text{Long-run post-acquisition performance}\\&\quad=\alpha(\text{Economic freedom Distance}_{ij})\\&\qquad+\beta_1(\text{Acquirer Past Performance})\\&\qquad+\beta_{2_{ij}}(\text{Acquirer country-level Characteristics})\\&\qquad+\beta_3(\text{Firm-level Characteristics})\\&\qquad+\text{Year dummies}+\text{constan}\,t+V_{it}+E_{ij,t}\end{aligned}\tag{1}$$

In model 2, we regress equity stake owned by the acquirer (i) in target (j) after the acquisition against economic freedom distance along with deal characteristics and country characteristics as control variables:

$$\begin{aligned}&\text{CBA ownership level}_{ij,t}\\&\quad=\alpha_0+\beta_1\text{Ln}\,(\text{Economic Freedom distance}_{ij})\\&\qquad+\beta_{2ij}\,(\text{Country-pair controls})\\&\qquad+\beta_3\,(\text{Deal-level controls})\\&\qquad+V_{it}+E_{ij,t}\end{aligned}\tag{2}$$

We use logarithmic transformations on our variables and scale the variables wherever appropriate. As we pool our CBA deal-level data across 1995–2014, we include year-fixed effects to account for time-related shocks. Following previous studies (Weitzel and Berns 2006; Prasadh and Thenmozhi 2019) this research uses 'quasi-fixed' regression models where we enforce acquirer country-level dummies in our regression models to capture the country-level effects that do not vary substantially over the sample period. Our models do not enforce target country-fixed effects because doing so would destroy the possibility of estimating our focus independent variable. We use OLS to estimate our first model on long-run post-acquisition performance (Huang et al. 2017). We also control for industry-fixed effects of the acquirer firms based on their SIC classifications. We cluster the standard errors for possible nonindependence across different CBA deals involving the same cross-border acquirer. The dependent variable in Model 2 is equity participation by the cross-border acquirer in a target country post-acquisition. Tobit models account for the limited nature of a dependent variable (Dow et al. 2016) and have been used in prior studies on ownership level in various country-level settings (Chari and Chang 2009). We test for multicollinearity among economic freedom distance and all other variables using variance inflation factor (VIF). All our models are robust with mean VIFs less than 10.

Results

Table 1 provides a summary of 25 nations ranked by the number of deals made by acquirer and target nations. The top five target and acquirer nations in our

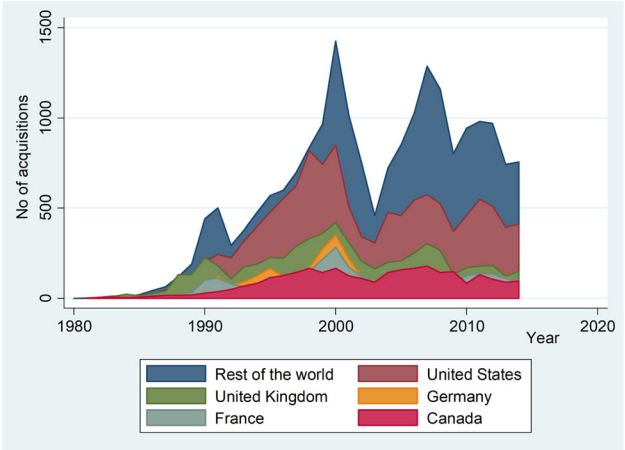

Fig. 1 Five largest cross-border acquisition markets. *Notes* Largest cross-border acquirers are determined by the number of acquisitions from SDC platinum where the target firm was located in any country

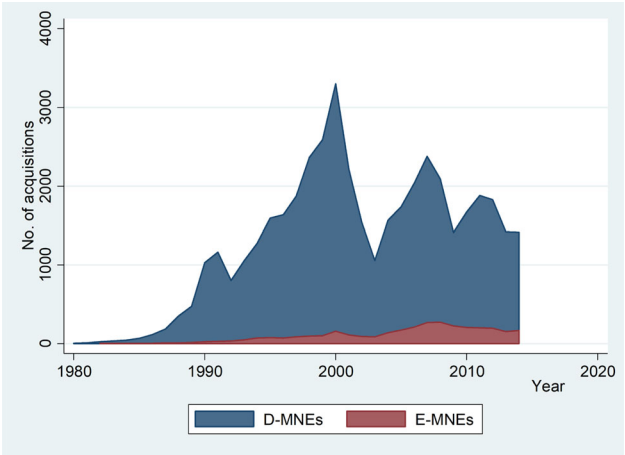

Fig. 2 D-MNEs vs. E-MNEs. *Notes* Number of acquisitions by D-MNEs and E-MNEs from SDC platinum where the target firm was located in any country

Table 2 Distribution of direction variables and long-run post-acquisition performance

Direction	Acquirer	Target	No. of deals	%	ROA	Average economic freedom distance
ADTD	Developed	Developed	8401	86.7	0.1076	1.1330
ADTE	Developed	Emerging	1158	12.0	0.1128	12.5323
AETD	Emerging	Developed	113	1.2	0.0651	− 11.5095
AETE	Emerging	Emerging	14	0.1	0.0672	11.45
Full sample			9686		0.1076	2.7971
F stat.					5.53***	0.07

sample are from developed economies, and they are the USA (17.97%, 26.63%), UK (10.72%, 12.08%), Germany (7.93%, 6.95%), Canada (6.49%, 6.89%) and France (5.61%, 6.58%). USA is the leader by far in the top five active markets over the sample years 1995–2014. Figure 1 shows that acquisition activity around the globe has increased substantially since the 1980s and MNEs are buying targets in many more foreign nations. All five of the top acquirer nations in acquisitions have witnessed an increase in the numbers of deals, but the most interesting trend is the number of acquisitions made by the MNEs where

Table 3 Distribution of direction variables and CBA ownership level

Direction	Acquirer	Target	No. of deals	%	Average ownership level	Average economic freedom distance
ADTD	Developed	Developed	26,463	73.9	0.8778	0.6112
ADTE	Developed	Emerging	6346	17.7	0.7106	14.250
AETD	Emerging	Developed	1763	4.9	0.7406	− 16.537
AETE	Emerging	Emerging	518	1.44	0.6634	2.5059
Full sample			35,798		0.8334	2.3776
F stat.					885.21***	325.59***

targets are in nations that are not in the top five most active markets of our sample. Based on IMF (2016) and MSCI list (2016), our study classifies the countries as developed and emerging economies. Figure 2 shows the acquisition activity of D-MNEs and E-MNEs over the period of 1980–2014. E-MNE acquirers have increased their CBA activity over the period of 1980–2014. Unlike their D-MNE counterparts, E-MNEs have different strategic objectives and they encounter legitimacy threat in the developed nations.

Table 2 presents the distribution of the long-run post-acquisition performance for different CBA pairs. In total, 86% of the sample is from ADTD acquisitions, but they experience lower post-acquisition performance than ADTE acquisitions. D-MNEs imprint their dynamic capabilities in the emerging economies and generate superior gains than their counterparts who invest in developed economies. Interestingly, E-MNEs investing in similar economies generate more value than their counterparts who invest in developed economies. A one-way ANOVA shows that long-run performance varies across different CBA samples (F stat. = 5.53***). Our results from a two-way ANOVA show that there is no interaction effect between the economic freedom distance and direction on long-run performance. In Table 3, we present the distribution of ownership level in different CBA pairs—88% of acquirers are from developed economies and the average ownership level in ADTD acquisitions is higher than our full sample mean. Average economic freedom distance is higher in ADTE acquisition, and they experience higher ownership level than AETE acquisitions. Further, direction of CBA flow moderates the impact of economic freedom distance on ownership levels. Overall, univariate analyses in two different CBA samples demonstrate that E-MNEs internationalization activity and the gains are significantly different from D-MNEs.

We provide descriptive statistics and the correlation matrix in Tables 4 and 5. We infer that 56% of acquirer firms and 9% of target firms are public, 51% of CBA deals are from same line of business, 3% of acquirers have foothold in target, and 14% of acquirers have prior CBA experience in the target country. Our CBA sample shows that 0.8% of transactions are tender offers, 82% deals are cash deals, and 3% of deals have government as seller. Our correlation coefficients indicate that multi-collinearity is not a concern in the estimation of Model 1 and Model 2. The correlation matrix further reveals that long-run performance and equity participation of acquirer are highly correlated with economic freedom distance (Tables 4 and 5).

Impact of economic freedom distance on long-run post-acquisition performance

Table 6 provides the results for OLS regression estimates on the impact of economic freedom distance on long-run post-acquisition performance across 9686 observations. In order to test our hypothesis H_1, we examine the impact of economic freedom distance after controlling for firm-level characteristics. Model 1 shows that the coefficient estimate for the economic freedom distance variable was positive and significant, in support of hypothesis H_1. As economic freedom distance increases by 1%, long-term post-acquisition performance increases by 5.59%. Consistent with recent studies, this result supports the extant evidence that investigates the impact of arbitrage advantages (Ellis et al. 2017; Gaur and Lu 2007; Jackson and Deeg

Table 4 Long-run post-acquisition performance: pairwise correlation matrix and descriptive statistics

Variables	Mean	Median	SD	1	2	3	4	5	6	7	8	9	10	11	12
ROA (1)	0.1076	0.1196	0.1246	1.000											
Economic Freedom distance$_{ij}$ (2)	2.7972	1.2000	10.2562	0.0607*	1.000										
Ln(Acquirer GDP) (3)	27.9766	28.0367	1.4224	0.003	0.1583*	1.000									
Ln(Target GDP) (4)	27.6463	27.7645	1.3749	− 0.0268*	− 0.2018*	− 0.0525*	1.000								
Cultural distance$_{ij}$ (5)	1.2419	1.2029	0.9889	− 0.009	0.0929*	− 0.007	− 0.0521*	1.000							
Acquirer prior performance (6)	0.1451	0.1446	0.0979	0.3585*	0.0372*	0.0594*	− 0.015	− 0.0461*	1.000						
Acquirer debt to equity ratio (7)	0.6729	0.3701	2.3551	− 0.0623*	− 0.021	0.0465*	− 0.002	0.0473*	− 0.1132*	1.000					
Log (Total assets) (8)	6.3498	6.2157	1.1329	− 0.001	− 0.021	0.0830*	0.006	0.3553*	− 0.1150*	0.2204*	1.000				
Ownership level (9)	0.7989	1.0000	0.3196	0.0584*	− 0.0526*	0.0713*	0.1094*	− 0.1404*	0.1081*	− 0.0902*	− 0.2711*	1.000			
Acquirer strategic changes (10)	0.4410	0.0000	0.4965	0.0434*	0.0826*	− 0.0339*	− 0.0606*	0.0411*	0.0316*	0.0362*	0.1649*	− 0.0410*	1.000		
Acquirer diversification (11)	0.0479	0.0000	0.2136	0.0547*	− 0.0921*	− 0.004	− 0.013	0.006	0.0553*	− 0.024	0.016	− 0.015	0.0607*	1.000	
Acquirer public status (12)	0.9566	1.0000	0.2037	0.0313*	0.0546*	0.0557*	0.023	0.015	0.018	0.002	0.018	0.025	0.0299*	− 0.0852*	1.000

*Significant at 1%

Table 5 Ownership level: pairwise correlation matrix and descriptive statistics

Variables	Mean	Median	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
Ownership level (1)	0.8334	1.0000	29.1767	1												
Economic freedom distance$_{ij}$ (2)	2.4642	1.4000	11.5855	− 0.0741*	1											
Same legal origin (3)	0.4637	0.0000	0.4987	0.0498*	− 0.1377*	1										
Same primary language (4)	0.3635	0.0000	0.4810	0.1055*	− 0.1154*	0.7445*	1									
Same religion (5)	0.4001	0.0000	0.4899	0.0985*	− 0.1049*	0.2339*	0.1074*	1								
Cultural distance$_{ij}$ (6)	1.4411	1.2439	1.2215	− 0.1632*	0.0954*	− 0.5791*	− 0.4664*	− 0.2571*	1							
Ln(Acquirer GDP) (7)	28.2351	28.2183	1.4859	0.0879*	0.0855*	− 0.0225*	0.1115*	− 0.0355*	0.0720*	1						
Ln(Target GDP) (8)	27.8901	28.0129	1.4837	0.1562*	− 0.1725*	0.0520*	0.1789*	0.0052	− 0.0311*	− 0.0003	1					
Ln(Acquirer GDP per capita) (9)	10.3838	10.5037	0.6483	0.1175*	0.3904*	− 0.0325*	− 0.001	0.0898*	− 0.0467*	0.2082*	0.0594*	1				
Ln(Target GDP per capita) (10)	10.0577	10.3600	0.9975	0.2520*	− 0.5692*	0.1121*	0.1541*	0.1743*	− 0.1863*	0.0544*	0.4080*	0.1179*	1			
Ln(Acq. Market cap/GDP) (11)	4.5488	4.6607	0.5620	0.0828*	0.2809*	0.1083*	0.2360*	− 0.0105	− 0.0486*	0.1729*	0.0632*	0.1532*	0.004	1		
Ln(Tgt. Market cap/GDP) (12)	4.3290	4.5368	0.7509	0.0940*	− 0.3993*	0.2195*	0.3233*	0.0261*	− 0.1227*	0.0427*	0.3384*	0.0329*	0.3833*	0.1869*	1	
Ln(Acq. International Trade) (13)	3.9723	3.9677	0.6400	− 0.0537*	0.0273*	0.0031	− 0.0865*	− 0.0439*	− 0.0722*	− 0.7880*	0.0797*	0.0082	0.0106	− 0.0309*	0.0172*	1
Ln(Tgt. international trade) (14)				− 0.0300*	− 0.0280*	− 0.0482*	− 0.1342*	− 0.0630*	0.0236*	0.0846*	− 0.6428*	0.0909*	0.0141*	0.0142*	− 0.0667*	0.0326*
Bilateral treaty (15)				− 0.1792*	0.1428*	− 0.1149*	− 0.1720*	− 0.1397*	0.1760*	− 0.0847*	− 0.2934*	− 0.1742*	− 0.4393*	− 0.0611*	− 0.3003*	0.1237*

Table 5 continued

Variables	Mean	Median	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
Ln(Geographic distance$_{ij}$) (16)				− 0.0499*	0.0383*	− 0.0295*	0.1395*	− 0.0180*	0.3027*	0.3342*	0.2015*	− 0.0719*	− 0.1228*	0.2300*	0.1442*	− 0.3703*
Related acquisitions (17)				0.0512*	0.0073	0.0128*	− 0.0042	0.0063	− 0.0256*	0.0131*	− 0.0392*	0.0143*	− 0.0277*	0.003	− 0.0307*	− 0.0037
Foot hold (18)				− 0.0508*	0.0517*	− 0.0200*	− 0.0390*	− 0.0157*	0.0301*	− 0.0244*	− 0.0590*	− 0.0168*	− 0.0955*	− 0.0124	− 0.0385*	0.0240*
Prior CBA experience (19)				0.0043	− 0.0470*	0.0803*	0.0990*	0.0305*	− 0.0441*	− 0.0559*	0.1665*	0.0045	0.0548*	0.0309*	0.0732*	0.0418*
Mode of payment (20)				− 0.1678*	− 0.0156	− 0.0740*	− 0.0974*	− 0.0489*	0.1144*	− 0.0049	− 0.0612*	− 0.0536*	− 0.0821*	− 0.0904*	− 0.0606*	− 0.0075
Tender offer (21)				− 0.0300*	0.0251*	− 0.0122*	− 0.0188*	− 0.0061	0.0225*	− 0.0115	− 0.0306*	0.0027	− 0.0439*	− 0.0001	− 0.0098	0.0166*
Target public status (22)				− 0.5128*	− 0.003	0.0074	− 0.0007	− 0.0349*	0.0628*	− 0.0508*	− 0.0610*	− 0.0726*	− 0.0761*	− 0.0373*	− 0.0096	0.0251*
Acquirer public status (23)				0.0278*	0.0081	0.0166*	0.0611*	0.0161*	0.0002	0.0475*	0.0779*	0.01	0.0195*	0.1238*	0.0576*	− 0.1018*
Privatization (24)				− 0.0927*	0.0898*	− 0.0477*	− 0.0804*	− 0.0216*	0.0359*	− 0.0300*	− 0.1646*	− 0.0390*	− 0.1726*	− 0.0591*	− 0.1773*	− 0.0026

	Mean	Median	SD	14	15	16	17	18	19	20	21	22	23	24
Ln(Tgt. international trade) (14)	3.9876	4.0017	0.5620	1										
Bilateral treaty (15)	0.1443	0.0000	0.3513	0.1272*	1									
Ln(Geographic distance$_{ij}$) (16)	8.1259	8.7819	1.1354	− 0.3298*	0.0727*	1								
Related acquisitions (17)	0.0367	0.0000	0.1880	0.0167*	0.0234*	− 0.0251*	1							
Foot hold (18)	0.1521	0.0000	0.3591	0.0302*	0.0553*	− 0.0041	0.0166*	1						
Prior CBA experience (19)	0.8150	1.0000	0.3883	− 0.1511*	− 0.0466*	0.0138*	− 0.0303*	0.0506*	1					
Mode of payment (20)	0.0082	0.0000	0.0901	0.0127	0.0787*	0.0328*	− 0.0128	0.0370*	− 0.0026	1				
Tender offer (21)	0.5871	1.0000	0.4924	0.0168*	0.0318*	0.0026	0.0018	0.2186*	0.0344*	0.0260*	1			
Target public status (22)	0.0822	0.0000	0.2746	− 0.0095	0.0539*	0.0580*	− 0.0425*	0.1423*	0.0498*	0.1206*	0.2705*	1		
Acquirer Public status (23)	0.0277	0.0000	0.1641	− 0.0940*	− 0.0746*	0.0959*	− 0.0354*	0.0174*	0.0908*	− 0.1530*	0.0001	− 0.0096	1	
Privatization (24)	0.0367	0.0000	0.1880	0.0436*	0.1213*	− 0.0371*	0.0152*	0.0267*	− 0.0208*	0.0505*	0.0007	0.0121*	− 0.0345*	1

*Significant at 1%

2008; Mallon and Fainshmidt 2017) on the long-run performance of internationalization activities. A potential implication of this result derives from the imprinting theory (Stinchcombe 1965), and we find that arbitrage opportunities are relatively higher in the CBA deals with higher economic freedom distance. Institutional difference between countries provides arbitrage opportunities (Gaur and Lu 2007; Mallon and Fainshmidt 2017) where MNEs that domicile in the country with strong institutional framework get imprinted with dynamic capabilities and transferring these capabilities to the target firms generates superior gains after acquisition

For instance, acquirers from the countries with higher economic freedom possess stronger home institutions which encourage their firms to develop more unique capabilities. When these institutionally imprinted dynamic capabilities in the acquirer firms are transferred to target firms, these form an important source for target firm's competitive advantages, particularly for the target firm that domicile in lower economic freedom countries, where local firms suffer from weak institutions and they lack innovative products and superior management techniques (Luo and Peng 1999).

Wright et al. (2005) argue that subsidiary ownership strategy is a mechanism used by MNEs to mitigate the information costs. Model 2 examines the moderation effect of equity stake on the relationship between economic freedom distance and long-run post-acquisition performance. In a CBA deal involving higher economic freedom distance, as the equity stake in the target increase, long-run post-acquisition performance decreases by 4.01% ($-0.0850 + 0.0449 = -0.0401$). This result supports our hypothesis H_2, although economic freedom distance provides synergistic benefits in the transactions that involve higher economic freedom distance, greater control adversely affects the imprinting effects in CBA deals. Post-acquisition performance in the CBAs that involve economic freedom distance is diminished because when MNEs take higher ownership level, they encounter the costs that arise from institutional voids and information asymmetries (Chacar and Vissa 2005). Additionally, MNEs have to manage the stakeholders in the target country who may perceive that firms from that stronger institutional framework may exploit the local capabilities (Child and Tsai 2005). These learning costs in full acquisitions may supersede the gains of the imprinting effect in economic freedom distance. In terms of high learning costs, MNEs prefer a joint venture partner in the internationalization activities where partial ownership can help MNEs to reduce the liabilities of foreignness in the target country and thereby navigate easily in the new operating environment.

Impact of economic freedom distance on CBA ownership level

Figure 3 exhibits a negative relationship between economic freedom distance and ownership level. Table 7 provides the results for Tobit regression estimates on the effect of economic freedom distance on ownership structure in foreign target across the 35,798 deal observations. Model 1 examines the effect of economic freedom distance. In Model 2, we add the direction variables of economic freedom distance. As predicted by the ownership decision literature, in Model 1, partial acquisitions are more likely when countries are large, share same religion, language and are distant in geography and culture. Model 3 examines the impact of economic freedom distance on CBA ownership level after controlling for both country and deal-level controls.

Overall, we find that economic freedom distance between the acquirer and target country makes a negative and significant impact on ownership level ($P < 0.001$). As the economic freedom distance between the acquirer and target country increases by 1%, acquired ownership in a cross-border target increases by 0.13%. These results are in line with the findings of distance literature (Zhao et al. 2004) where partial ownership structure by MNEs allows for some advantages over full equity ownership structure (Faccio and Lang 2002; Kang and Kim 2008; Contractor et al. 2014). As economic freedom distance increases, there is an increase in information asymmetry associated with institutional differences between countries. Partial ownership can eliminate the challenges that arise from the information asymmetries associated with economic freedom distance by disclosing the accurate information (Dang et al. 2018) of the low-economic freedom target, and also it ensures cooperation from the managers of target firms after the acquisition. Further, shared ownership helps the acquirers to navigate in the target country (Makino and Delios 1996) with weak institutional environment.

Table 6 Regression results for the impact of economic freedom distance on long-term post-acquisition performance

Variables	Model 1		Model 2	
	Coeff.	*t* stat	Coeff.	*t* stat
Economic freedom distance$_{ij}$	0.0559***	3.39	0.1319***	4.06
Economic performance				
Ln(Acquirer GDP)	− 0.9700***	− 3.21	− 0.9763***	− 3.24
Ln(Target GDP)	− 0.0204	− 1.31	− 0.0222	− 1.41
Cultural integration				
Cultural distance$_{ij}$	0.0089	0.59	0.0115	0.76
Firm characteristics				
Acquirer prior performance	0.2738***	8.84	0.2739***	8.85
Acquirer debt to equity ratio	− 0.0221	− 1.56	− 0.0209	− 1.46
Log (Total assets)	0.1325***	5.20	0.1315***	5.18
Ownership level	0.0362**	2.31	0.0449***	2.77
Acquirer strategic changes	0.0026	0.20	0.0032	0.25
Acquirer diversification	0.0159	0.96	0.0162	0.98
Acquirer public status	0.0211	0.82	0.0207	0.81
Economic freedom distance$_{ij}$ × ownership level			− 0.0850***	− 2.69
Year-fixed effect	Yes		Yes	
Acquirer industry-fixed effect	Yes		Yes	
Acquirer country-fixed effect	Yes		Yes	
Observations (used)	9686 (5319)		9686 (5319)	
Pseudo-*R*-square	0.1634		0.1644	

Table reports the results of OLS regressions. Dependent variable is mean of the ROA (return on assets) for three years post-acquisition. Model 1 examines the impact of economic freedom (EF) distance on ROA. Model 2 examines the moderation effect of ownership level. Sample includes cross-border deals over the period of 1995-2014. Standardized beta is the coefficient. *, **, *** represent significance at 10%, 5% and 1% levels, respectively. Mean VIF of the models is ≤ 10. 'Observations' is the number of CBA deals in the sample; 'used' is the number of CBA deals with all of the independent variable data available. Standard errors are clustered by acquiring firms. A constant is included in each specification but not reported in the table. All variables are defined in 'Appendix'

In the instances when the economic freedom distance is very high, partial ownership reduces the acquirer's risk of ex-post moral hazards by creating a hostage effect (Chen and Hennart 2004). As the target firm has an equity ownership in the combined entity, it also has a motivation to better its own performance and assure the success of the new entity, as doing so would lead to its own profits. Partial ownership structure may remove the opportunistic behavior of target firms and thereby MNEs shall cut down the risk associated with moral hazards. In addition, international investments in the countries with less favorable condition may involve high levels of risk, especially in the state-run economies. MNEs can reduce their chances of loss exposure by choosing to go for lower ownership stakes in the target firm.

The results on ownership level are strong empirical support for our hypothesis (H_3). However, we argue that ownership level is not only influenced by the economic freedom distance but also by the 'country of origin' of both acquirer and target country (Chikhouni et al. 2017) which we have categorized for this research as emerging and developed economies. To demonstrate the behavior of E-MNEs and D-MNEs, we investigate the moderation effect of CBA direction on the relationship between economic freedom distance and CBA ownership level. In Model 2 we find that impact of economic freedom distance on ownership level is negative and highly significant in AETD

Table 7 Regression results for the impact of economic freedom distance on CBA ownership level

Variables	Model 1		Model 2		Model 3	
	Coeff.	*t* stat	Coeff.	*t* stat	Coeff.	*t* stat
Economic freedom distance$_{ij}$	− 0.0013***	− 4.42	− 0.0012***	− 3.82	− 0.0010***	− 2.47
Cultural integration						
Same legal origin	− 0.0285***	− 4.96	− 0.0285***	− 4.95	− 0.0435***	− 5.10
Same language	0.0169***	2.46	0.0202***	2.93	0.0494***	4.69
Same religion	0.0289***	8.03	0.0285***	7.90	0.0344***	6.58
Cultural distance$_{ij}$	− 0.0117***	− 6.00	− 0.0114***	− 5.81	− 0.0093***	− 3.63
Economic performance						
Ln(Acquirer GDP)	− 0.0172	− 0.24	− 0.0221	− 0.31	− 0.0174	− 0.19
Ln(Target GDP)	0.0278***	15.01	0.0305***	15.81	0.0190***	7.53
Ln(Acquirer GDP per capita)	0.0197	0.27	0.0206	0.28	0.0623	0.65
Ln(Target GDP per capita)	0.0210***	7.63	0.0353***	8.03	0.0172***	4.58
Financial development						
Ln(Acquirer market cap/GDP)	− 0.0075	− 1.18	− 0.0075	− 1.17	0.0076	0.81
Ln(Target market cap/GDP)	0.0020	0.77	0.0038	1.44	− 0.0005	− 0.12
Market integration						
Ln(Acquirer international trade)	0.0075	0.28	0.0028	0.10	0.0769**	2.10
Ln(Target international trade)	0.0286***	6.02	0.0375***	7.45	0.0191***	2.94
Bilateral treaty	− 0.0108	− 1.87	− 0.0250	− 3.80	− 0.0204***	− 2.63
Spatial characteristics						
Ln(Geographic distance$_{ij}$)	− 0.0110***	− 5.24	− 0.0104***	− 4.92	− 0.0096***	− 3.31
Direction						
Direction 1: ADTE			0.0552***	4.97		
Direction 2: AETD			− 0.0303	− 0.23		
Direction 3: AETE			0.0281	0.22		
Economic freedom distance$_{ij}$ × ADTE			− 0.0004	− 0.98		
Economic freedom distance$_{ij}$ × AETD			0.0025**	2.22		
Economic freedom distance$_{ij}$ × AETE			0.0027	1.47		
Deal characteristics						
Related acquisitions					0.0202***	4.78
Foot hold					0.0196**	2.18
Prior CBA experience					0.0081	1.41
Mode of payment					− 0.0469***	− 7.62
Tender offer					0.1576***	11.66
Target public status					− 0.2886***	− 50.37
Acquirer public status					0.0084*	1.76
Privatization deal					− 0.0598***	− 5.86
Year-fixed effect	Yes		Yes		Yes	
Acquirer country-fixed effect	Yes		Yes		Yes	
Observations (used)	35,798 (26,152)		35,798 (26,152)		35,798 (9967)	
Log likelihood	− 15,677.67		− 15,658.10		− 5255.70	

Table 7 continued

Variables	Model 1		Model 2		Model 3	
	Coeff.	*t* stat	Coeff.	*t* stat	Coeff.	*t* stat
Model χ^2	3382.65***		3421.79***		4665.00***	

Table reports the results of Tobit regressions. Dependent variable is equity stake owned by an acquirer (*i*) in a target (*j*) after the acquisition. Model 1 examines the impact of economic freedom (EF) distance on ownership level. Model 2 examines the impact of economic freedom (EF) distance after controlling for deal-level characteristics. Model 3 examines the moderation effect of direction. Sample includes cross-border deals over the period of 1995–2014. *t* statistics in parentheses. *, **, *** represent significance at 10%, 5% and 1% levels, respectively. Mean VIF of the models is $\leq$ 10. 'Observations' is the number of CBA deals in the sample; 'used' is the number of CBA deals with all of the independent variable data available. Standard errors are clustered by acquiring firms. A constant is included in each specification but not reported in the table. All variables are defined in 'Appendix'

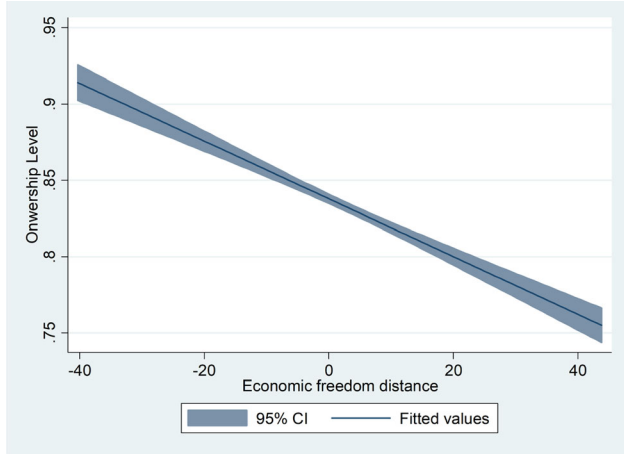

Fig. 3 Ownership level vs. economic freedom distance. *Notes* Ownership level in CBA deals at different levels of economic freedom distance

acquisitions ($P < 0.001$). As economic freedom distance increases by 1%, acquired ownership in a foreign target decreases by 2.78%. In the developed market targets, both D-MNEs (ADTD[3]) and E-MNEs prefer partial acquisitions. We find that economic freedom distance is significant in ADTE and AETE pairs. The motivation behind D-MNEs and E-MNEs in the ADTE and AETE deals is to expropriate the assets of the target firms. Hence, difference in the economic freedom levels does not affect the ownership strategy in emerging economies. Furthermore, as we predicted in hypothesis H_3, the economic freedom distance has a significant negative impact on the ownership level, even after controlling for different deal-level characteristics.

[3] ADTD acquisitions is the base model with higher percentage than any other CBA directions in our sample,.

Additional analysis and robustness checks

We perform a number of additional analyses to ascertain the robustness of our results on ownership strategies. In Model 1 (Table 8) we investigate the impact of economic freedom distance on ownership structure when controlling for year, acquirer industry and acquirer country. We cluster standard errors for possible nonindependence across the deals involving the same acquirer and find that economic freedom distance makes a significantly negative impact on ownership stake. In Model 2, we use an alternative measure of economic freedom distance. We source this index from Fraser Institute, and it measures the country's degree of economic freedom in five wide-ranging areas: (1) legal structure and security of property rights, (2) size of government, (3) freedom to trade internationally, (4) access to sound money and

Table 8 Robustness check: regression results for the impact of economic freedom distance on CBA ownership level

Variables	Model 1		Model 2	
	Coeff.	*t* stat	Coeff.	*t* stat
Economic freedom distance$_{ij}$	− 0.0012***	− 2.72		
Economic freedom distance_Fraser$_{ij}$			− 0.0122***	− 2.24
Cultural integration				
Same legal origin	− 0.0477***	− 5.56	− 0.0396***	− 5.39
Same language	0.0557***	5.44	0.0475***	5.21
Same religion	0.0338***	6.22	0.0304***	5.96
Cultural distance$_{ij}$	− 0.0106***	− 4.03	− 0.0105***	− 4.23
Economic performance				
Ln(Acquirer GDP)	− 0.0450	− 0.47	− 0.0775	− 0.96
Ln(Target GDP)	0.0126***	4.75	0.0099***	3.89
Ln(Acquirer GDP per capita)	0.0812	0.82	0.1329	1.56
Ln(Target GDP per capita)	0.0161***	4.39	0.0201***	5.99
Financial development				
Ln(Acquirer market cap/GDP)	− 0.0010	− 0.10	0.0084	0.95
Ln(Target market cap/GDP)	0.0030	0.79	0.0014	0.35
Market Integration				
Ln(Acquirer international trade)	0.0532	1.21	0.0821**	2.06
Ln(Target international trade)	0.0109*	1.68	0.0034	0.56
Bilateral treaty	− 0.0264***	− 3.51	− 0.0247***	− 3.39
Spatial characteristics				
Ln(Geographic distance$_{ij}$)	− 0.0112***	− 3.62	− 0.0087***	− 3.01
Deal characteristics				
Related acquisitions	0.0197***	4.20	0.0180***	3.99
Foot hold	0.0196**	2.06	0.0245***	2.72
Prior CBA experience	0.0093	1.59	0.0086	1.53
Mode of payment	− 0.0460***	− 6.73	− 0.0460***	− 7.04
Tender offer	0.1395***	12.59	0.1430***	12.98
Target public status	− 0.2702***	− 49.34	− 0.2712***	− 51.36
Acquirer public status	0.0005	0.10	0.0003	0.06
Privatization deal	− 0.0527***	− 5.40	− 0.0513***	− 5.26
Year-fixed effect	Yes		Yes	
Acq. country-fixed effect	Yes		Yes	
Acq. industry-fixed effect	Yes		Yes	
Observations (used)	35,798 (9967)		35,798 (10,218)	
Log likelihood	− 4812.64		− 5343.47	
Model χ^2	74.49***		78.36***	

Table reports the results of Tobit regressions. Dependent variable is equity stake owned by an acquirer (*i*) in a target (*j*) after the acquisition. Model 1 examines the impact of economic freedom (EF) distance on CBA ownership level after controlling for acquirer country and Industry. Model 2 uses economic freedom proxy. Both models cluster for acquirer firms. Sample includes cross-border deals over the period of 1995–2014. *t* statistics in parentheses. *, **, *** represent significance at 10%, 5% and 1% levels, respectively. Mean VIF of the models is $\leq$ 10. 'Observations' is the number of CBA deals in the sample; 'used' is the number of CBA deals with all of the independent variable data available. A constant is included in each specification but not reported in the table. All variables are defined in 'Appendix'

(5) regulation of credit, labor and business. Our results show that, as economic freedom distance increases by 1%, CBA ownership level decreases by 1.22%. The estimated results with the alternative measurement of economic freedom index are consistent with our main estimations. Conventional econometric techniques are typically designed to estimate structural parameters and draw causal inferences from them. However, machine learning algorithms are substantially better at making any predictions because they do not enforce any unnecessary structure to the data. In this study, we use the logistic regression algorithm to evaluate our

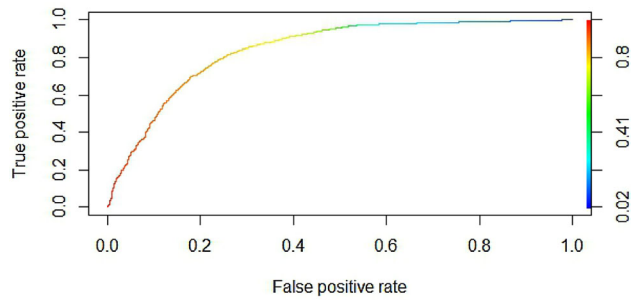

Fig. 4 ROC curve of logistic regression. *Note* AUC for the logistic regression model is 0.8489, sensitivity: 0.9448, specificity: 0.5968, misclassification error: 0.164, concordance: 0.8682

findings on ownership choices. We construct ownership structure as a binary categorical variable which takes '1' for full acquisitions and '0' for partial acquisitions (ownership level $< 51\%$). We run a logistic regression classifier and find that our results on economic freedom distance are negative and significant ($P < 0.001$). The accuracy of the model is evaluated using the area (AUC = 0.8489) obtained from receiver operating characteristic (ROC) curve (Fig. 4).

Conclusion

This paper examines the impact of economic freedom distance on the choice of ownership and the gains they create in the long run. Our study is inspired by the increasing importance of distance in the internationalization literature and in specific, the effect of distance on MNE's long-run performance in CBA deals and their ownership strategies. As the CBA research on arbitrage opportunities is gaining momentum, our research is one of the few recent studies that examine the effect of institutional differences on different CBA dimensions.

We study a sample of over 35,798 CBAs globally and find that there is considerable potential for arbitrage advantages (Jackson and Deeg 2008; Mallon and Fainshmidt 2017) in downward economic freedom distance due to the imprinting effects by the acquirer. Our results show that full ownership in the target reduces the gains in CBAs. Finally, to mitigate the information asymmetry risks, economic freedom distant country pairs experience lower equity participation. Consistent with recent studies (Chikhouni et al. 2017), by accounting for directionality, we relax the assumption that institutional distance impact on entry mode decision is the same for MNEs whether it operates in a developed or emerging economies. We demonstrate the relationship between economic freedom distance and equity participation relationship is moderated by CBA direction.

This study contributes to the literature in 'organizational imprinting' by investigating to which extent the capabilities of MNEs affect the long-run performance (Kriauciunas and Kale 2006). Our study has strong implication for the managers involved in internationalization. MNE managers have to make entry mode decisions by analyzing the risk and opportunities associated with distance. In this context, while the distance posits challenges associated with information asymmetry, we suggest that the 'direction' of distance (Hernández and Nieto 2015) also influences the internationalization decisions. M&A practitioners may therefore invest much of their time to understand their motivation during internationalization process; in specific what they seek for, because arbitraging advantages are available for the MNEs who look for 'dynamic capabilities' and 'escape—seeking opportunities' in the emerging economies and these possibilities can be obtained in different ways. Besides the institutional quality of target countries, managers have to choose the ownership level based on difference in the institutional quality of acquirer and target country. From a methodological perspective, we make and important contribution to the research gap among internationalization literature related to the issue of sampling acquirer firms from a single country (preferably, developed country) and providing generalizable evidence on the long-run performance and ownership structure. This research also provides important implications for practitioners and policymakers.

Despite the contributions, findings do have some limitations which suggest future research. Firstly, in this study we use ownership level as a mechanism to

improve the effect of 'organizational imprinting.' Future studies may extend our work by incorporating different firm-level and deal-level characteristics that shall moderate the relationship between economic freedom distance and long-run post-acquisition performance. Secondly, this study solely focuses on CBA as entry mode choice which suffers from information asymmetry when it confronts economic freedom distance. MNEs may prefer other investment strategies to combat the information asymmetry challenge. Third, our CBA sample does not include any longitudinal dimension, for instance, the impact of economic freedom distance on long-run performance and ownership strategies may change over the time.

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Appendix

Variables	Definition
Economic freedom distance$_{ij}$	Economic Freedom distance$_{ij}$ is the difference in acquirer (i) and target (j) country's quality of economic freedom. Source: Heritage Foundation
Cultural integration	
Same legal origin	'1' if both acquirer and target country have common legal origin, '0' otherwise. We source legal origin between countries from La Porta et al. (1999)
Same primary language	'1' if both acquirer and target country have primary spoken language, '0' otherwise. We source primary language between countries from CIA fact book
Same religion	'1' if both acquirer and target country have primary religion,'0' otherwise. We source primary religion between countries from CIA fact book
Cultural distance$_{ij}$	Difference in the restraint distance index of acquirer country and target country in the year 't' of acquisition. We source this score from geert-hofstede.com
Economic performance	Source: World bank
Acquirer country GDP	Gross-domestic product of acquirer country in the year 't' of acquisition
Target country GDP	Gross-domestic product of target country in the year 't' of acquisition
Acquirer country _GDP per capita	Gross-domestic product per capita of acquirer country in the year 't' of acquisition
Target country_ GDP per capita	Gross-domestic product of target country in the year 't' of acquisition
Market integration	Source: World bank.& UNCTAD
Acquirer international trade	Sum of imports and exports scaled by GDP of acquirer country in the year 't' of acquisition
Target international trade	Sum of imports and exports scaled by GDP of target country in the year 't' of acquisition
Bilateral treaty$_{ij}$	'1' if the acquirer and target nation signed a bilateral investment treaty
Financial development	Source: World bank
Acquirer market cap/ GDP	Market capitalization of acquirer country scaled by GDP in the year 't' of acquisition
Target market cap/ GDP	Market capitalization of target country scaled by GDP in the year 't' of acquisition
Spatial characteristics	
Ln(Geographic distance$_{ij}$)	Log- distances between capital/ important cities of acquirer and target country. We source this from CEPII
Deal characteristics	Source: SDC platinum(Thomson Reuters) and Datastream (Thomson Reuters)
Related acquisitions	'1' if the acquirer and target firm share at least 1 digit of their SIC code or else '0'
Foot hold	'1' if acquirer holds up to 25% of the target at the time of announcement or else '0'
Prior CBA experience	'1' if the acquirer took over another target in the host country prior to acquisition announcement or else '0'
Mode of payment	'1' if the acquisition is a cash deal or else '0'
Tender offer	'1' if the acquisition is consummated via tender offer or else '0'
Privatization deal	'1' if the seller or ultimate parent of the seller is Government
Ownership level	Equity stake owned by an acquirer in a target after the acquisition

Variables	Definition
Acquirer debt to equity ratio	Total debts divided by total equity of acquirer firm in the year '*t*' of acquisition
Operating—performance	
Long-run post-acquisition performance	EBITDA scaled by BVA in $t + 3$ serves as the proxy for acquirer's operating performance. *t* is the year of acquisition
Firm characteristics	
Target public status	'1' if the target firm is a public or else '0'
Acquirer public status	'1' if the acquirer firm is a public or else '0'
Acquirer strategic changes	'1' if more than one CBA made by an acquirer during the three years or else '0'
Acquirer diversification	'1' if the acquirer has more than one business or else '0'
Log (Total assets)	Total assets of acquirer firm in the year '*t*' of acquisition
Acquirer prior performance	EBITDA scaled by BVA in $t - 1$ is the proxy for acquirer prior performance. *t* is the year of acquisition

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