Governance Quality Distance

Master Thesis

Department of Organization and Strategy

Tilburg School of Economics and Management

Tilburg University

Author: G. Kyriazis
ANR: 87.42.09
Program: MSc. International Management
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Supervisor: Dr. M.A. Overboom
Second reader: Dr. Z.L. He
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I. Management Summary

It is well accepted that the external institutional environment of a country influences the expansion strategy of a multinational enterprise (MNE). Nevertheless, scholars argue that the equity share sought by MNEs in cross-border acquisitions is influenced by the institutional distance between the home and host-country rather than the absolute value of a host-country's external institutional environment. Particularly, scholars argue that the similarity or dissimilarity in the external institutional environments is a determinant for the choice between full and partial ownership.

Based on a sample of 356 international cross-border acquisitions with eleven different home-countries and 75 host-countries, this thesis tests the effect of governance quality distance on the share of equity sought by MNEs in cross-border acquisitions.

The empirical findings support the hypothesis that the share of equity sought by MNEs is based on the similarity or dissimilarity in the institutional environments of the home and host-country. Furthermore, the existence of asymmetric governance quality distance is not supported by the sample. At last, this thesis shows that governance quality distance and governance quality can jointly explain the variance in the share of equity sought in cross-border acquisitions.

This thesis contributes to literature by operationalizing regulatory distance with the construct of governance quality distance. Additionally, it has proven that the choice between partial and full acquisitions is driven by differences in the regulatory environments. Also, the possibility of the existence of the "illusion of symmetry" has been ruled out. Consequently, firms can view the differences in regulatory environments between the home and host-country as a source of competitive (dis)advantage and design strategies accordingly in the global competition. Finally, this study shows that governance quality and governance quality distance can complement, rather than substitute, each other in explaining the variation in the share of equity sought by MNEs in cross-border acquisitions.

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1. Introduction

1.1 Introduction

This document is a Master thesis for the program MSc International Management of Tilburg School of Economics and Management at Tilburg University. This thesis is the final step in completing the aforementioned study program. The purpose of this study is to examine the effect of governance quality distance on the share of equity sought by MNEs in cross-border acquisitions. In the remaining of this chapter a shortcoming of literature is exposed. Furthermore, a structure is introduced as to how this shortcoming is addressed by establishing four research questions.

1.2 Problem Indication

International entry modes represent the third most researched field in international management (Canabal and White, 2008). According to Brouthers and Hennart (2007), literature has already examined a number of individual entry mode structures. However, the one choice that has received most attention is that between wholly owned subsidiaries (WOS) and joint ventures (JV) (Brouthers and Hennart, 2007). Choosing the right ownership level is important in foreign market entry because it can influence factors such as control, risk, investment requirement and the transfer of tacit assets (Chari and Chang, 2009). According to Slagen and van Tulder (2009), this strategic choice depends to a large extent on the external uncertainty of the target country.

To test the influence of external uncertainty on the degree of ownership, scholars have used variables such as cultural distance (Kogut and Singh, 1988; Cho and Padmanabhan, 2005) and political risk (Slangen and van Tulder, 2009). These variables supposedly describe the external uncertainty faced by WOS and JV in foreign countries. However, according to Slangen and van Tulder (2009), this seems not to be the case. The scholars point out to the disadvantages of these two measures, namely cultural distance not only reflects the external uncertainty associated with WOSs but also the internal uncertainty associated with JVs. In addition, political risk covers only one aspect of the formal external environment, thereby making this measure too narrow.

In response, Slangen and van Tulder (2009) proposed an alternative variable that better describes the external uncertainty faced by MNEs. That variable is governance quality (GQ). Slangen and van Tulder (2009) were able to show that this variable is much more appropriate and significant in explaining the choice between WOS and JV based on external uncertainty. In particular, governance quality classifies the governance infrastructure of a host-country on the scale introduced by Kaufmann et al. (2004). As Slangen and van Tulder (2009) have shown, lower levels of governance quality increase the probability of shared ownership structure modes in international expansions.

Although GQ is capable in explaining much of the variation in the choice between full and shared ownership modes, Slangen and van Tulder (2009) suggest there is room for improvement. Particularly by using the governance quality measure, the proximity of the home-country is not

taken into account. In theoretical terms, their findings suggest that the decision of a MNE is based solely on the perceived external uncertainty of the host-country.

According to Xu and Shenkar (2002), the choice between full and partial acquisitions may be driven by the similarity or dissimilarity of the regulatory environment between two countries. Also Slangen and van Tulder (2009) suggest the effect of their composite governance quality measure reflects a governance quality distance (GQD) rather than a governance quality effect. In other words, the differences in GQ levels between home and host countries are a better predictor of the variance rather than the absolute GQ of the host that causes the effect (Xu and Shenkar, 2002).

This thesis deals with the limitations of Slangen's and van Tulder's (2009) study. More specifically, the goal is to prove the suitability of governance quality distance in describing the choice between full and partial acquisitions as compared to governance quality. In other words, governance quality distance is tested as a determinant for the share of equity sought in cross-border acquisitions and is compared to the existing measure of governance quality.

1.3 Problem statement

The problem indication leads to the following research question.

In what way does governance quality distance influence the share of equity sought in cross-border acquisitions?

The measure of the governance quality of the host country is based on Kaufmann et al.'s (2004) analysis. These authors define governance quality as the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them. Kaufmann et al. (2004) have identified six dimensions along which countries differ from one another in terms of their GQ (for definitions of the six dimensions see Appendix 1).

Kaufmann et al. (2004) have assigned an approximate of 200 countries a score on each dimension that varies between -2.5 and 2.5, with higher values indicating higher GQ levels. According to Slangen and van Tulder (2009) the score of each dimension can be averaged into a composite measure of the overall quality of a country's GQ.

The differences in governance quality between home and host-countries can be calculated by using a governance quality distance index. As suggested by Slangen and van Tulder (2009), the governance quality distance measure can be constructed by calculating the Euclidean distance of the six dimensions of governance quality for each pair of countries. The values of the GQD vary between 0 and 12.25, with the latest value being the theoretically greatest possible GQD between two countries.

Finally, Slangen and van Tulder (2009) examined the effect of governance quality on both acquisitions and Greenfields. However, Chen and Hennart (2004) point out that the acquisition entry-mode should be examined separately from Greenfields. In particular, the authors argue that the motivations for each of the two entry-modes are different thereby necessitating their separate examination. In their support Chari and Chang (2009) state that there have not been enough studies on the determinants of the share of equity sought by MNEs in cross-border acquisitions. Therefore, this thesis examines a very specific type of foreign entry mode, namely cross-border acquisitions (CBA). The ownership mode of these acquisitions is then classified in accordance with previous literature (Padmanabhan and Cho, 1996). More specifically, an acquisition is partial if the parent acquires a share of equity up to 95% of the foreign firm, thereby creating an acquisition joint venture of which the parent is a partial owner. On the other hand, if a firm acquires 95% or more of the foreign firm, then the parent is considered to have full ownership. Lastly, in accordance with Chari and Chang (2009) observations for which the acquirer had a prior equity interest in the target firm are excluded. This filter is used because these acquisitions are not comparable to fresh acquisitions in terms of the acquirer's familiarity with the target firm (Chari and Chang 2009).

1.4 Research Questions

For the problem statement to be answered, the following research questions are formulated

1. *What is the effect of governance quality on the share of equity sought in cross-border acquisitions?*

This question examines the effect of host-countries' absolute GQ on the foreign ownership level in CBAs. The results are compared to the findings of Slangen and van Tulder (2009) that have tested this relationship for a single home-country. Furthermore, the findings are used to compare the absolute effect of GQ to the effect of GQD.

2. *What is the effect of governance quality distance on the share of equity sought in cross-border acquisitions?*

Here, the measure of GQD is constructed to test whether it affects the degree of foreign ownership in CBAs. The findings are compared to the findings of the first research question to establish which measure is more significant and appropriate.

3. *What is the effect of asymmetric governance quality distance on the share of equity sought by MNEs in cross-border acquisitions?*

According to Shenkar (2001), the cultural distance between country A and country B is not identical to the distance of country B and country A. It is expected that the same also holds for GQD. Therefore, an assumption is made. Specifically that GQD is positive for cross-border acquisitions into host-countries with a higher governance quality to the home-country (upward cross-border acquisitions). Alternatively, cross-border acquisitions into host-countries with a lower

governance quality to the home-country are described by negative governance quality distance (downward acquisitions).

4. *What is the effect of governance quality and governance quality distance on the share of equity sought in cross-border acquisitions?*

Finally, this thesis examines whether similar distances between pairs of countries have different effects on foreign ownership mode depending on the host-country's GQ. For example, if the outcome of a given GQD between two high GQ countries is full ownership, does this outcome hold for the same given GQD between two low GQ countries?

2. Theoretical Background

One of the strategic decisions that MNEs face within the context of international expansion is between full or partial ownership for cross-border acquisitions (Slangen and van Tulder, 2009). According to Gelbuda et al. (2008), the contribution of the institutional perspective is critical in understanding such decisions within the context of international business. Such is the usefulness of this framework that an increasing number of international management scholars have based their studies on it (Wright et al., 2005). Additionally, extensive research in this field has distinguished between two interrelated lines of theorizing on the institutional perspective, namely institutional economics and the sociology-oriented institutional theory (Gelbuda et al., 2008).

2.1.1 Institutional economics

Institutional economics is based on the idea that the institutional environment is essential in shaping economic activity and firm behavior (Gelbuda et al., 2008). North (1990) defines a nation's institutions as the rules of the game that comprise informal constraints (sanction, taboos, and codes of conduct) as well as formal rules (constitutions, laws, property rights).

Internal institutions, or the informal environment (Slangen and van Tulder, 2009), include other organizations within a firm's industry or peer group, as well as other business units within an organizational network (Davis et al., 2000). In particular Davis et al. (2000) state that a subsidiary is nested within a set of internal organizational relationships with the parent firm and siblings that is somewhat analogous to the relationships it confronts. In their study Davis et al. (2000) have proved that internal institutions have a great impact on the entry mode decision, especially when internal rules are dominant.

Typically, formal rules, also referred to as host country institutional environment or external environment (Slangen and van Tulder, 2009), include regulatory structures, agencies, laws, courts, professions, interest groups and public opinion (Davis et al. 2000). In particular, Gelbuda et al. (2008) suggest that the formal rules can also include laws and regulations for purchasing property, licensing of new businesses, hiring workers, importing and exporting regulations, rules on capital repatriation, standards for contracting with suppliers and buyers, process for obtaining licenses and the way to pay taxes. According to Davis et al. (2000), the host country institutional environment is conceptualized by a collective organizational field consisting of manufacturers, parent and host governments, consumer organizations and subsidiaries of other stakeholders. Lastly, Rosenzweig and Singh (1991) define the formal environment as a "set of highly established and culturally sanctioned action patterns and expectations".

Gelbuda et al. (2008) suggest that international business scholars that study institutional economics focus on external constraints and the costs of doing business, especially transaction and agency costs, as well as the adaptation costs related to operating in a different institutional environment. MNEs react o these constraints and costs by adapting their organizational forms and ownership levels. A shared assumption in this work is the "rational economic actor" maximizing its utility, an assumption that is not necessarily shared by the sociology-oriented institutional theory.

2.1.2 Sociology-oriented institutional theory

The sociology-based institutional theory conceptualizes institutions as the rules and norms that define legitimate behavior (DiMaggio and Powell, 1983). According to Deephouse (1996), in sociology-oriented institutional theory the organizations conform to the existing belief systems of the society to obtain legitimacy. Within institutional theory such conformity is known as institutional isomorphism[1] which makes organizations earn legitimacy (Xu and Shenkar, 2002). In other words, the MNE's entry strategy exerts the external and internal isomorphic pressures for conformity and legitimacy. According to D'Aunno et al. (1991) gaining legitimacy comes with enhanced access to resources and stronger social-psychological support from the external environment (Gelbuda et al., 2008).

According to Davis et al. (2000), the external and internal isomorphic pressures can be understood as a "common understanding of what is appropriate and meaningful behavior". In their study, Rosenweig and Singh (1991) argue that subsidiaries of MNEs face simultaneous pressures to adapt to the institutional environment of the host country and to achieve consistency within the organization. Furthermore, the isomorphic forces emerge from the "three pillars" of institutions, namely regulatory, normative and cognitive (Gelbuda et al., 2008). Gelbuda et al. (2008) also point out that the regulatory pillar corresponds to the "formal rules" definition of institutional economics, therefore creating the alignment between the two perspectives. According to Gelbuda et al. (2008), there are some management scholars that synthesize, or selectively combine, the two strands of this closely related theoretical work (Peng, 2003 and Peng et al., 2005).

According to Busenitz et al. (2000), the regulatory pillar of the institutional profile consists of laws, regulations, and government policies that construct and constitute the grounds of organizational and industry action as well as ensure stability and order in societies. According to Yiu and Makino (2002), foreign subsidiaries in the host countries are under discriminative institutional pressure from the native governments. Additionally, MNEs' organizational forms and their capabilities to operate as networks of affiliates are also affected by cross-national variations in institutions. Therefore, the primary objective of a MNE entering a foreign market is to gain legitimacy (Yiu andMakino, 2002). In other words, MNEs strive to establish the right to do business in the new market.

2.1.3 External uncertainty and cross-border acquisitions

From an institutional perspective – both institutional economics and sociology-oriented institutional theory –, firms will refrain from investing in countries that are institutionally different (Xu and Shenkar, 2002). According to Delios and Henisz (2003), institutional differences deter the collection, interpretation and organization of information necessary for a successful entry by MNEs. Nevertheless, according to Henisz and Delios (2002), the impact of institutions on entry strategies can extend beyond the choice of where to invest, to also include the design of the subsidiary. In particular, when firms do decide to enter a foreign market, they choose to adjust the

[1] Isomorphism refers to the "constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (Davis, Desai and Francis, 2000)

levels of control and resource commitment to minimize the risk of institutional conflict (Xu and Shenkar, 2002, Heinisz and Delios, 2002). According to Rozenzweig and Singh (1991), organizations that do expand internationally seek to adopt structures or processes that reflect the institutional environment instead of achieving maximum efficiency.

Davis et al. (2000) argue that some ownership strategies are less successful than others in facilitating the integration with the host-country conditions. In particular, wholly owned subsidiaries will find it more difficult to control higher levels of uncertainty in the host-country contextual environment (Fladmoe-Lindquist and Jaque, 1995). Moreover, full or majority ownership implies higher commitment to the investment and higher switching-costs. The characteristics of this ownership strategy render the organization and its subsidiary less flexible in their response to changes in the host-country conditions (Davis et al., 2000, Fladmoe-Lindquist and Jaque, 1995). Overall, given a large external uncertainty, MNEs will be hindered in achieving legitimacy in the host-country and in transferring routine-based competencies (Xu and Shenkar, 2002). To cope with the disadvantages of wholly owned subsidiaries, MNE may choose for a partial ownership mode (Davis et al., 2000).

According to Yiu and Makino (2002), there are two reasons why a MNE might choose for a partial acquisition mode of entry. Firstly, the foreign parent can mitigate the liability of foreignness[2] by venturing with a local partner. In particular, the local partner can lessen some of the regulatory requirements otherwise imposed on the foreign parent. Secondly, Yiu and Makino (2002) point out that MNE can benefit from "spillover effects" of their local partners. More specifically, the foreign partner can make use of the reputational capital of their local partner. Davis et al. (2000), suggest that partial acquisitions are also more adaptive and responsive to exogenous factors in the environment.

2.1 Governance quality and cross-border acquisitions

To conceptualize external uncertainty, Slangen and van Tulder (2009) have suggested using the "governance infrastructure" quality of host countries since it covers all "public institutions and policies created by governments as a framework for economic, legal and social relations" (Globerman and Shapiro, 2003, p.20). According to Slangen and van Tulder (2009), it represents all those "attributes of legislation, regulation, and legal systems that condition freedom of transacting, security of property rights, and transparency of government and legal processes" (Goberman and Shapiro, 2003, p. 19). Furthermore it includes (1) the process by which governments are selected, monitored, and replaced, (2) governments' capacity to effectively formulate and implement solid policies, and (3) the extent to which citizens and governments respect the institutions that govern economic and social interactions (Kaufmann et al., (2004). The lower the governance quality, the higher the external uncertainty associated with a WOS (Slangen and van Tulder, 2009).

[2] Liability of foreignness are the costs faced by MNEs doing business abroad arising from the unfamiliarity of the environment, from the cultural, political and economic differences, and from the need for coordination across geographic distance (Zaheer, 1995).

Partial acquisitions mitigate this governance-related external uncertainty by making use of their partners in the host country (Slangen and van Tulder, 2009). In particular, partial acquisitions allow MNEs to collaborate with motivated local partners that possess the knowledge and skills to successfully operate in countries with different governance systems (Yiu and Makino, 2002). Rodriguez et al. (2005) also state that managers of local firms are more experienced and capable in dealing with corruption and law ineffectiveness in comparison to the parent company managers. Another argument for the preference of partial acquisitions is given by Slangen and van Tulder (2009). In particular, partial acquisitions require fewer resources making them more flexible and with lower exit costs than full acquisitions. These characteristics make it easier for a MNE to withdraw from a country should the already low governance quality deteriorate further.

In their study, Slangen and van Tulder (2009) suggest additional reasons for the use of partial acquisitions in lower governance quality host-countries. In detail, maintaining the influence and control of the local partner diminishes the likelihood of the partial acquisition being treated unfavorably by the local government. For example, local governments may hinder the repatriation of earnings for fully acquired subsidiaries as well as imposing import quotas. According to Heinsz (2000) such discriminatory policies can be avoided when ownership is shared with a local partner. Naturally it is not in the interest of the host-country government to hamper the performance of the local partner. Lastly, the involvement of a local partner decreases the probability of other local stakeholders in using the local legal system inefficiencies opportunistically (Slangen and van Tulder, 2009).

All in all, it seems that MNEs try to mitigate the effects of external uncertainty by choosing a lower-degree of ownership in cross-border acquisitions into host-countries with lesser governance quality. Slangen and van Tulder (2009) have proven governance quality to be an appropriate measure of external uncertainty, therefore:

Hypothesis 1. The lower the target country's overall governance quality, the more likely an MNE will enter that country through a partial acquisition rather than through a full acquisition.

2.2 Governance quality distance and cross-border acquisitions

In their study, Slangen and van Tulder (2009) suggest that the absolute composite measure of governance quality may not capture the full effect that external uncertainty has on the ownership mode decision. Instead, the authors suggest that this decision may be influenced more intensively by the governance quality distance between the home and host-country. Specifically, Xu and Shenkar (2002) point out that the choice between full and partial ownership may be driven by differences in governance quality levels between home and host countries rather than absolute host-country governance quality levels. According to Xu and Shenkar (2002) the extent of similarity or dissimilarity between the regulatory, cognitive and normative institutions of two countries is known as institutional distance.

A number of scholars have proven that when MNEs enter an institutionally distant market, they choose for lower levels of resource commitment and control, generally associated with partial

acquisitions (Agarwal & Ramaswami, 1992, Hill et al., 1990). According to Xu and Shenkar (2002), MNEs follow this strategy to mitigate the risk of institutional conflicts. In particular, given a large institutional distance, MNEs will not find it easy to obtain legitimacy in the host-country (Kostova and Zaheer, 1999) and to transfer routine-based competitive advantages (Kostova, 1999). Makino and Delios (1996) state, that equity involvement by local partners may partially compensate for those difficulties by facilitating local legitimacy.

Rosenzweig & Nohria (1994) and Zaheer (2005), suggest that external legitimacy is more important to the MNE than internal consistency in institutionally distant countries. In other words, the dilemma between majority versus minority control is largely effected by the similarity or dissimilarity of the regulatory environment, therefore:

Hypothesis 2: The larger the governance quality distance between home and host – country, the more likely that an MNE will enter that country through a partial acquisition rather than through a full acquisition.

It is important to note that for now the governance quality distance is used only for downward cross-border acquisitions. These describe the acquisitions for which the home-country has a higher governance quality to the host country. This distinction is made to make sure that the governance quality of the host-country deteriorates as the governance quality distance increases. In later sections this requirement is relaxed.

2.3 Governance quality distance asymmetry

So far this thesis has referred solely to downward cross-border acquisitions. However, MNE may acquire companies that are situated in qualitatively better governed countries than the host-country. In this section, the underlying limitation is dealt with to allow for so much upward as downward acquisitions.

Shenkar (2001) points out that the limitation to deal with such directional differences belongs to the conceptual properties of distance. More in detail, Shenkar (2001) names this property of distance the “illusion of symmetry”. In his study, the scholar argues that the “illusion of symmetry” applies to the concept of Cultural Distance (Kogut and Singh, 1988). Nevertheless, to the extent that both cultural distance and governance quality distance use the Euclidean distance measure, it is permissible to say that the arguments put forth by Shenkar (2001) also apply to governance quality distance.

With regards to the “illusion of symmetry” Shenkar (2001) argues that “distance by definition is symmetric: the distance from point A to point B is identical to the distance from point B to point A”. Defending governance quality distance symmetry is difficult in the context of foreign direct investment. It would assume an identical role for home and host governance quality. Particularly, a Dutch firm acquiring a local Ecuadorian firm would be faced with the same governance quality distance as the Ecuadorian firm acquiring a firm in the Netherlands. Past studies however have proven this assumption wrong (Delios and Heinisz, 2000, Delios and Beamish, 1999, Agarwal and

Ramaswami, 1992). According to these authors, the political risk that characterizes the host-country has a determining effect on the choice of the foreign ownership mode. In other words, different degrees of political risk result in different degrees of foreign ownership.

To cope with the "illusion of symmetry", governance quality distance is allowed to have a direction. More specifically, when the host-country is qualitatively in a better position than the home-country, then the direction of governance quality distance is upward. Alternatively, the direction of governance quality distance is downward when the host-country has a governance quality lower than the home-country. In order to distinguish the direction of distance, governance quality distance takes positive values for upward acquisitions and negative values for downward acquisitions. In other words, smaller values of governance quality distance, which in this case are the negative ones, indicate the acquisition of a MNE into a distant host-country with governance quality lower to the home country. Therefore:

Hypothesis 3: The smaller the asymmetric governance quality distance between home and host-country, the more likely an MNE will enter that country through a partial acquisition rather than through a full acquisition.

2.4 The joint effect of governance quality and governance quality distance

One final property of distance this thesis is dealing with is related to the findings of Chapman et al. (2008). These authors have supplemented the study of Shenkar (2001) by adding a fifth illusion, which they named the ″illusion of neutrality″. According to Chapman et al. (2008), the ″the illusion of neutrality″ is the illusion that a given ´cultural distance´ will always have the same effects upon the action and interpretation of those experiencing it. In other words, if Countries A and B have a cultural distance of say 50 and the same distance is observed between countries C and B, then the effect of cultural distance on A is not necessarily the same as on country C.

The ″illusion of neutrality″ can easily also apply to the governance quality distance measure due to the similarity of this measure to cultural distance. In particular, an American MNE acquiring a company situated in the Czech Republic faces a governance quality distance of approximately 1,896 (see Appendix 2). At the same time, when a Brazilian MNE acquires a firm in Ecuador, it faces a governance quality distance of 1,933. Despite their similarity in distance values, the two pairs of countries are very different. The first pair, United States - Chech Republic, describes countries on the higher end of governance quality index. In contrast, the second pair, Brail – Ecuador, describes two countries on the lower end of governance quality.

By looking only at the values of governance quality distance, one would expect that they produce the same outcome. More specifically, since the value of the distance is relatively small, the outcome should be the preference for full ownership acquisitions. However, such predictions contradict hypothesis 1, which states that MNEs choose partial acquisitions as a mean of entering low governance quality countries. Therefore:

Hypothesis 4: For a given governance quality distance, the lower the target country's overall governance quality, the more likely the more likely an MNE will enter that country through a partial acquisition rather than through a full acquisition.

Hypothesis 5: For a given governance quality, the larger the governance quality distance between home and host-country, the more likely the more likely an MNE will enter that country through a partial acquisition rather than through a full acquisition.

3. Methodology

3.1 Research Design

The purpose of this study is to describe the existing relationship between GQ and foreign ownership mode, while conducting comparative analyses by examining the effect of GQD. Therefore, this thesis constitutes a descriptive study that is complemented by hypothesis-testing (Sekaran, 2003, p.121 – 125). It is based on a review of existing literature and the analysis of quantitative data. Furthermore, the research makes use of a correlational type of investigation to compare the two variables and to test GQD in different settings (Sekaran, 2003, p.126). All data used are secondary. The variables investigated are GQ and GQD (both independent), and foreign ownership mode (dependent).

3.2 Data Collection

The thesis builds upon secondary data that are relevant towards answering the research questions. Such data refer to past research publications that deal with issues central or relevant to this thesis, as well as quantitative data used in the empirical analysis.

Past research can be found in online databases such as ABI/Inform, and JSTOR. The literature field can be extended by using key words or the names of authors specialized in this field. Another literature search technique that is used is the "snowball effect". Put simply, the review of one article will refer to other relevant and useful articles that can also contribute to the thesis. It is also possible to extend the literature field by looking at the articles that have cited a particular study of interest, which is basically the "snowball effect" in reverse.

The articles are chosen on basis of the impact factor that the publishing journal scores. For this reason the impact factor is used as provided by Harzing and Mingers (2007). The journals that score higher than a one on the impact factor scale are suitable for use. Other factors that are considered are the year of publication, with a preference for recent studies, as well as the frequency of prior citation.

For the quantitative part of the thesis, two sources are used. First, the scores for each of the six dimensions of the GQ are collected from the website of the World Bank[3]. The timeframe for which the indicators have been constructed is 1996 – 2008. Nevertheless, to stay in line with the work done by Slangen and van Tulder (2009), the year 2003 is used for the collection of the quantitative data.

The data on cross-border acquisitions and ownership modes is obtained from SDC Thompson's international M&A database. The search criteria in the SDC interface are structured in the following way. First the acquirer nation is selected; this nation can be one of the eleven preselected parent nations, namely the Netherlands, Germany, the UK and the USA, Japan, Italy,

[3] www.worldbank.org/wbi/governance/govdata2002/index.html

Brazil, China, India, South Korea, Russia. Second the target nations are selected; the exact procedure for preselecting the target nations is explained in the following section.

Finally, the data on cross-border acquisitions and ownership modes is obtained from SDC Thompson's international M&A database. As suggested by Slangen and van Tulder (2009) and Xu et al. (2004) it is necessary to examine firms from a variety of home countries entering a variety of host countries. The selection of countries is based on their classification according to GQD. More specifically, all countries are classified into intervals according to their governance distance to a predetermined home country. The first interval includes countries that have a GQD of less than 0.5 to the home country. The next interval includes distances between 0.5 and 1, and so the intervals grow by 0.5 each time. The home countries for which the intervals are constructed are the Netherlands, Germany, the UK and the USA, Japan, Italy, Brazil, China, India, South Korea, Russia. In addition, the target nations are selected after government restrictions are taken into consideration (Chari and Chang, 2009); the exact procedure for preselecting the target nations is explained in the following section. In other words, 75 countries are used for this research. The reason why so many countries are used is to avoid any form of correlation between GQ and GQD.

Furthermore, search criteria are added that describe the deal itself. Specifically, the acquisition deal must be completed. By imposing this criterion, deals that are pending, cancelled or incomplete are excluded from the sample. Also excluded from the sample are merger deals. Excluding mergers is done under the "form of the deal" search criterion in the SDC interface. The final deal criterion controls for the percent of shares owned after the transaction. The lower boundary for this percentage is 10%, which is in accordance with most research done in this field (Canabal and White, 2008). The upper boundary is the maximum, namely 100%. The cutoff point between full and partial ownership is 95%. Finally, all cross-border acquisitions included in the sample take place in the calendar year 2003.

To control for fresh cross-border acquisitions, the percentage of shares bought is compared to the percentage of shares owned after the transaction. If these two percentages are not equal it is concluded that the acquirer already owns a certain percentage of shares prior to the focal acquisition. When that is the case, the transaction is excluded from the sample. The information required for this control is provided by SDC report generation application.

3.2.1 Host country selection

The choice of host countries is essential to this thesis and is based on the governance quality distance between the acquirer and target nation. To facilitate these choices a selection procedure is established. This procedure is repeated for each one of the acquirer nations.

The first step in this procedure is to calculate the governance quality distance of all countries listed in the database of the World Bank to each of the parent nation. The governance quality distance is the Euclidean distance of the six governance dimensions of the acquirer nation to the equivalent dimension of the target nation. (See equation 1 for formula, see Appendix 1 for definitions of dimensions, see world bank link for raw data)

After calculating the governance quality distance for all countries, the sign of the distance value needs to be established. To account for target nations that have better governance quality than the home country, a distinction is being made between positive and negative intervals. In particular, positive intervals include those countries that have a higher governance quality value relative to the focal home country. Conversely, the negative intervals include countries that score less on the governance quality index in relation to the focal home country. The governance quality index used for this classification is the average of the host country scores on each of the six dimensions (Slangen and van Tulder, 2009).

Now that the governance quality distance has been calculated and the sign has been established, it is possible to classify the target nations into intervals. This classification is done by looking at the distance value of each country to the acquirer nation. More specifically, all countries are classified into intervals according to their distance to a predetermined home country. The first positive interval includes the countries that have a GQD of less than +0.5 to the predetermined home country. The next positive interval includes distances between +0.5 and +1, and so the intervals grow by +0.5 at a time. In a similar manner the negative internals are also built, consequently, the first negative interval includes the countries that have a GQD of less than -0.5. These negative intervals also grow by adding -0.5 each time.

To make this classification clear, an illustration is made. For this example, the Netherlands is the predetermined home country. Australia, a potential target country, has a governance quality value that is lower than that of the Netherlands; therefore the GQD takes a negative sign. In short, the distance of Australia to the Netherlands is -0.3954, which means that this potential target nation is classified in the first negative interval and the acquisition is downward. In contrast, Sweden has a distance of +0.3883 which places the country in the first positive interval. Theoretically, the maximum governance quality distance is 12.25, which translate into 25 intervals. Nevertheless, this thesis considers the countries positioned in 23 intervals. The last two excluded intervals include countries such as Somalia and Zimbabwe, which experience minimal to no cross-border acquisition activity.

Finally, an attempt is made to maintain a balanced sample; consequently some target nations are excluded from certain intervals. By doing this, the total number of acquisitions in one interval is always close to the number of acquisitions of the following one. For example, if the difference between the second and sixth interval is too large, the amount of target countries is adjusted.

3.2.2 Sample 1

This section describes the characteristics of sample 1, which is used to answer the first and second research questions. These two questions require a separate sample, because governance quality distance which is calculated by the Euclidean distance formula, does not allow for negative values. However, if the variable is forbidden from taking negative values, then sampling target nations from both higher (upward) and lower (downward) governance quality intervals would cause an inconsistency. In particular, without the use of signs the distance of Australia to the Netherlands is 0.3954 (this would otherwise be -0.3954). The governance quality distance of

Sweden to the Netherlands is 0.3883. Although these two target countries (Australia, Sweden) seem to have almost similar distances to their home country (the Netherlands), they do not. Put simply, Sweden enjoys a higher governance quality in relation to the Netherlands, while Australia scores lower on governance quality in relation to both countries.

To overcome this inconsistency in sample 1 a number of restrictions have been imposed. Firstly, only high governance quality nations are selected to serve as home countries. Specifically, four such nations have been selected, namely Germany (GQ = 1.47), the United States (GQ = 1.37), the United Kingdom (GQ = 1.53) and the Netherlands (GQ = 1.72). Furthermore, only the acquisitions into countries with lower governance quality than the focal home country are allowed in the sample. In the previous example only Australia would be included in the sample, leaving Sweden out. Table 1 on the following page shows the target countries that have been selected to represent the sample. This table shows the four home countries and the target nations that are selected for each one of them per interval.

Finally, an attempt is made to maintain a balanced sample; consequently some intervals include more target nations than other intervals. By doing this, the total number of acquisitions in one interval is always close to the number of acquisitions of the following one (table 2). For example, if the difference between the second and sixth interval is too large, then the amount of target countries is adjusted.

Table 2

Observations per home country and interval

Intervals		1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th
Observations	DE	0	3	0	8	2	2	0	1	4	0	12	0
	NL	2	18	1	1	1	3	0	1	0	0	0	3
	UK	2	9	0	2	14	6	6	2	1	11	4	2
	US	10	0	10	10	15	1	3	0	0	8	1	4
Total		14	30	11	21	32	12	9	4	5	19	17	9

The sample of acquisitions from the preselected target countries is divided into two categories. Table 4 presents the number of full and partial acquisitions per target country, per parent country and per interval. According to table 3, there are 105 full acquisitions in the sample, which is 57.4% of the sample. The remaining 42.6% are partial acquisitions.

Table 1 Selected host – countries per parent nation

		Host – Countries											
Interval		1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th
Home – Countries	DE	N/A	Australia	Japan	Italy	Slovakia	Malaysia	Brazil	Romania	India Turkey	Argentina Philippines	China Russia Ukraine	Indonesia Pakistan
	NL	Canada	UK	Portugal	Japan	Hungary	Poland	Malaysia	Croatia	Romania	India	Peru Saudi Arabia	China Ecuador
	UK	Austria	Spain	Chile Singapore	Japan Estonia	Greece Italy	Poland Un. Arab Em.	South Africa	Mexico	Romania	India	China	Kazakhstan
	US	Spain		Chile Portugal Puerto Rico	Czech Rep Hungary	Israel South Korea	Croatia	Thailand	Turkey	Peru	Russia	Colombia	Indonesia Venezuela

DE = Germany, NL = the Netherlands, UK = the United Kingdom, US = the United States

Table 3. Sample Characteristics

Home - Country	Interval	Host – Country	Full	Partial
Germany	First		N/A	N/A
	Second	Australia	3	0
	Third	Japan	0	0
	Forth	Italy	4	4
	Fifth	Slovakia	2	0
	Sixth	Malaysia	0	2
	Seventh	Brazil	0	0
	Eighth	Romania	1	0
	Ninth	India	2	1
		Turkey	0	1
	Tenth	Argentina	0	0
		Philippines	0	0
	Eleventh	China	2	3
		Russia	1	5
		Ukraine	0	1
	Twelfth	Indonesia	0	0
		Pakistan	0	0
		Sum	15	17
		Percentage	46,90%	53,10%
			Total	32
The Netherlands	First	Canada	2	0
	Second	UK	15	3
	Third	Portugal	0	1
	Forth	Japan	0	1
	Fifth	Hungary	1	0
	Sixth	Poland	2	1
	Seventh	Malaysia	0	0
	Eighth	Croatia	0	1
	Ninth	Romania	0	0
	Tenth	India	0	0
	Eleventh	Peru	0	0
		Saudi Arabia	0	0
	Twelfth	China	0	2
		Ecuador	0	1
		Sum	20	10
		Percentage	66,70%	33,30%
			Total	30
United Kingdom	First	Austria	2	0
	Second	Spain	7	2
	Third	Chile	0	0
		Singapore	0	0
	Forth	Japan	1	0
		Estonia	1	0
	Fifth	Greece	1	1
		Italy	8	4
	Sixth	Poland	3	1
		Un. Arab. Em.	1	1
	Seventh	South Africa	4	2
	Eighth	Mexico	1	1
	Ninth	Romania	0	1
	Tenth	India	3	8
	Eleventh	China	0	4
	Twelfth	Kazakhstan	0	2
		Sum	32	27
		Percentage	54,20%	45,80%
			Total	59
United States	First	Spain	10	0
	Second			
	Third	Chile	1	2
		Portugal	1	1
		Puerto Rico	5	0
	Forth	Czech Rep	5	2
		Hungary	2	1
	Fifth	Israel	2	2
		South Korea	6	5
	Sixth	Croatia	1	0
	Seventh	Thailand	1	2
	Eighth	Turkey	0	0
	Ninth	Peru	0	0
	Tenth	Russia	4	4
	Eleventh	Colombia	0	1
	Twelfth	Indonesia	0	1
		Venezuela	0	3
		Sum	38	24
		Percentage	61,30%	38,70%
			Total	62
			Sample Sum	105	78
			Sample Percentage	57,38%	42,62%
				Total	183

N/A = Not available

3.2.3 Sample 2

The second sample that is constructed for this thesis is used to answer the third and forth research questions. There are a number of properties that differentiate this sample from the previous one.

The first difference concerns the parameters of the governance quality distance variable. In contrast to sample1, this sample allows the variable to take negative values for nations with lower governance quality. To reuse the previous example, Sweden would retain the absolute value of GQD (0.3883), as this nation scores higher on the governance quality index in relation to the Netherlands (Sweden=1,8204> Netherlands=1,7217). Australia (AU = 1.6126 < NL = 1.7217), on the other hand, has its value modified by making it negative (-0.3954). The negative sign implies that the score measures the governance quality distance from a high quality nation to a lower quality nation and the acquisition is downward.

The allowance for negative values creates the opportunity to construct a more complete sample with the addition of higher quality target nations. In contrast to sample 1, this sample simply allows target nations to belong to any GQD interval, may that be positive or negative. E.g. the target nation of Sweden, which was disqualified in the example for sample 1, is simply added in sample 2.

Another advantage of free choice of target nations is that the choice of home countries is also freed. It is not required for sample 2 to select high governance quality home countries. To the contrary, it is more appropriate to choose home countries of varying governance quality scores. Consequently, the following home countries are selected to represent sample 2. Firstly the “BRIC” countries are added as home countries, those countries are Brazil, Russia, India and China. Secondly, one of the “Four Asian Tigers” is added, namely South Korea. Thirdly, a country belonging to what is currently known as the “PIIGS” is added, that nation is Italy. Finally certain developed countries are also added to capture the full scope of governance qualities. The nations to represent the developed economies are the Netherlands, the United States and Japan. All together this makes up for nine home countries of various governance qualities (stated in descending order: the Netherlands, the United States, Japan, Italy, South Korea, Brazil, India, China, and Russia).

The reasoning behind selecting many home countries with varying governance quality scores is twofold. First, such selection makes the sample more representative and reliable. Thereby, the variables can be tested for their appropriateness in predicting outcomes from a wide range of home countries. Second, mixing home countries of varying governance quality assists to minimize the correlation between GQ and GQD.

The exact effect of a wide range of home countries can be seen in table 4 on page 20. More specifically, the table shows that the United Kingdom posses the first negative interval as a target nation for the Netherlands. The same target nation (UK), posses the eleventh positive interval for

Russia. This implies that the there are big differences in the governance quality distance for the same target nation, which translates into less correlation between the governance quality variables.

As with sample 1, the target nations were selected in a way to preserve balanced observations between intervals. The observations of CBAs per interval are presented in table 5.

Table 5. Observations per home country and interval

Interval		+11	+10	+9	+8	+7	+6	+5	+4	+3	+2	+1	-1	-2	-3	-4	-5	-6	-7	-8	-9	-10	-11	-12
Home -Countries	BR	-	-	-	-	-	1	-	-	1	-	-	-	-	1	-	-	-	-	-	-	-	-	-
	CN	2	-	5	-	-	-	-	-	-	-	-	-	-	1	2	-	-	-	-	-	-	-	-
	IN	-	3	13	-	-	1	-	2	1	2	-	-	1	1	-	-	-	2	-	-	-	-	-
	IT	-	-	-	-	-	1	12	11	22	-	-	-	-	2	1	-	-	1	-	-	1	-	-
	JP	-	-	-	-	-	-	-	3	22	-	-	-	1	2	-	1	4	-	4	5	1	-	-
	NL	-	-	-	-	-	-	-	-	-	2	10	19	-	-	-	1	3	-	1	-	-	-	3
	RU	1	1	1	1	1	-	2	-	1	8	-	-	-	-	-	-	-	-	-	-	-	-	-
	KR	-	-	-	-	-	-	3	1	1	-	-	-	-	-	-	-	-	1	2	-	-	-	-
	US	-	-	-	-	-	-	-	-	-	12	-	10	5	11	17	1	2	1	7	1	2	-	-
Total		3	4	19	1	1	3	17	17	48	24	10	29	7	18	20	3	9	5	14	6	4	0	3

BR = Brazil, CN = China, IN = India, IT = Italy, JP = Japan, NL = the Netherlands, RU = Russia, KR = South Korea, US = United States

Finally, table 6 presents the observations per home country and acquisition type. In total, sample2 consists of 156 full cross-border acquisitions with another 107 partial ones. In other words, 59% of the total 265 observations are full acquisitions with the remaining 41% being shared ones. More detailed information on the data for each home country can be found in Appendix 3. The tables in Appendix 3 are similar to table 3 that displays the characteristics of sample1.

Table 6. Observations per type of Acquisition

	Home-Country							
Acquisition Type	BR	CN	IN	IT	JP	NL	RS	KR	US
Full	2	1	15	37	21	29	8	3	46
Shared	1	9	11	14	22	10	8	5	23
Sum	3	10	26	51	43	39	16	8	69

	Full	Shared
Totals	162	103
Percentage	61,13%	38,87%
	Total	265

BR = Brazil, CN = China, IN = India, IT = Italy, JP = Japan, NL = the Netherlands, RU = Russia, KR = South Korea, US = United States

Table 4. Selected host – countries per parent nation

Interval	Home - Countries								
	BR	CN	IN	IT	JP	NL	RU	KR	US
+11	-	Australia	-	-	-	-	United Kingdom	-	-
+10	-	-	Australia, Singapore	-	-	-	Spain	-	-
+9	-	Hong Kong, Japan	Germany, South Korea, United States	-	-	-	Estonia	-	-
+8	-	-	-	-	-	-	Lithuania	-	-
+7	-	-	-	-	-	-	Latvia	-	-
+6	Portugal	-	Italy	Finland	-	-	-	-	-
+5	-	-	-	United Kingdom, Austria, Netherlands, Canada	-	-	Bulgaria, Croatia	United States	-
+4	-	-	Brazil, Fiji	Belgium, Germany, United States	Switzerland, United Kingdom	-	-	Hong Kong	-
+3	Uruguay	-	Thailand	France, Spain	Austria, Germany, Hong Kong, United States	-	China	Japan	-
+2	-	-	Sri Lanka	-	-	Finland, Luxemburg	Armenia, Serbia, Moldova	-	Finland, Norway
+1	-	-	-	-	-	Denmark, Sweden, Switzerland	-	-	-
-1	-	-	-	-	-	United Kingdom, Canada	-	-	Spain
-2	-	-	Philippines	-	Taiwan	-	-	-	Chile, Portugal
-3	Peru	Kazakhstan	Bosnia - Herzegovina	South Africa, Croatia	South Korea	-	-	-	Hungary, Israel, Puerto Rico
-4	-	Azerbaijan, Ecuador	-	Thailand	-	-	-	-	Czech Republic, South Korea
-5	-	-	-	-	Croatia	Hungary	-	-	Croatia
-6	-	-	-	-	Brazil, Thailand	Poland	-	-	Thailand
-7	-	-	Sudan	China	-	-	-	Vietnam	Colombia
-8	-	-	-	-	India, Philippines	Croatia	-	Cambodia, Indonesia	Russia
-9	-	-	-	-	China, Vietnam	-	-	-	Indonesia
-10	-	-	-	Cote d'Ivoire	Iran	-	-	-	Venezuela
-11	-	-	-	-	-	-	-	-	-
-12	-	-	-	-	-	China, Ecuador	-	-	-

BR = Brazil, CN = China, IN = India, IT = Italy, JP = Japan, NL = the Netherlands, RU = Russia, KR = South Korea, US = United States

3.3 Dependent and Key Independent Variables

3.3.1 Cross-Border Acquisitions

The dependent variable is defined as the degree of ownership acquired by a MNE for a specific cross-border acquisition, i.e. full versus partial ownership (Slangen and van Tulder, 2009). In accordance with previous studies, the cut-off point is set to 95% (Canabal and White, 2008). Full acquisitions, for which more than 95% of the shares are bought, are assigned the value of 0. Alternatively, shared acquisitions, where the shares bought are between 10 to 95%, are assigned the value 1 (Slangen and van Tulder, 2009).

3.3.2 Governance Quality

The measure of the quality of the host country's governance infrastructure is based on Kaufmann et al.'s (2004) analysis. These authors define governance infrastructure as the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them. Kaufmann et al. (2004) have identified six dimensions along which countries differ from one another in terms of their GQ (for definitions of the six dimensions see Appendix 1).

Kaufmann et al. (2004) have assigned an approximate of 200 countries a score on each dimension that varies between -2.5 and 2.5, with higher values indicating higher GQ levels. According to Slangen and van Tulder (2009) the score of each dimension can be averaged into a composite measure of the overall quality of a countries GQ.

3.3.3 Governance Quality Distance

As suggested by Slangen and van Tulder (2009), the governance quality distance measure can be constructed by calculating the Euclidean distance of the six dimensions of governance infrastructure for each pair of countries. Equation 1 describes the Euclidean distance formula. The values of the GQD vary between 0 and 12.25, with the latest value being the greatest possible GQD between two countries. In practice this maximum is never reached.

$$GQDj = \sqrt{\sum_{i=1}^{6} (Iij - Iiu)^2}$$

Equation 1. Governance quality distance.

GQD_j Governance quality difference of the *j*th country from the *u*th country

I_{ij} Index for the *i*th governance quality dimension and *j*th country

I_{iu} Index for the *i*th governance quality dimension and *u*th country

3.3.4 Asymmetric Governance Quality Distance

The asymmetric governance quality distance variable is simply a modified version of GQD. The only difference between the variables is that the assymetric version allows for negative values. To assign the negative sign, a distinction is made between "upward" and "downward" distances. Upward distances are those where the host-country is enjoying a higher absolute governance quality in comparison to the home-country. Alternatively, downward distances are those where the host-country is experiencing an absolute governance quality that is lower to that of the home-country. When this is the case, the distances are assigned a negative sign to indicate the direction of the distance. The values of the asymmetric governance quality distance vary between -12.25 and +12.25.

3.3.5 Control Variables

Following the study of Slangen and van Tulder (2009), there are a number of control variables that need to be included in this model. This thesis only includes the control variables that are found to have a significant effect in the study of Slangen and van Tulder (2009). These variables are the MNE's decision specific experience. According to Padmanabhan and Rao (1999), MNEs with multiple entries tend to use the same entry strategy across their entries in the host-country. In other words, the more experienced a firm becomes with a particular strategy, the more likely it will be to use that strategy again. Decision specific experience is measured in two variables. The first, called full acquisition experience, is the sum of years of existence of all full cross-border acquisition made by a MNE from 1962 to 2002. The second variable, called partial acquisition experience, is measured as the sum of years of existence of all cross-border partial acquisitions made by a MNE from 1962 to 2002 (Cho and Padmanabhan, 2005)[4].

3.4 Method

Because the dependent variable is dichotomous, the most appropriate method for testing the hypotheses is a logistic regression (Slangen and van Tulder, 2009). Since two samples with different properties are examined, the methodology slightly differs for each case. The independent variables in sample1 are highly correlated; therefore it is impossible to include those in the same model. To cope with this limitation, the variables are introduced separately to the model containing the control variables. The results of the three models can then be compared to decide on the best fitting independent variable. The comparison is based on the width of their 95% confidence intervals, the goodness of fit, the chi-squared difference, the log likelihood ratio and the overall prediction capacity.

The variables in sample2 are not highly correlated; consequently a different technique is used to derive the results. To test for distance asymmetry, a specialized SPSS function is used called

[4] It must be noted that additional control variables were considered in order to control for the economic environment (Uhlenbruck et al., 2006). The two control variables considered are host-country GDP and GDP-per-capita. Nevertheless the variables are excluded from this study because the model became unstable by returning extreme coefficients with no significance (see Appendix 4 for variable definitions and SPSS output).

backward likelihood ratio logistic regression test. SPSS enters all variables into the model at the first step. Subsequently, one variable is excluded and the likelihood ratio of the remaining model is compared to the initial one. If the ratios are not significantly different, then the exclusion of that variable is allowed. By performing this test on a model that includes both the governance quality distance variable and its asymmetric version, it is possible to conclude whether distance asymmetry affects the outcome.

The same technique is also used to test the last hypothesis. By using backward likelihood ratio testing, SPSS indicates whether governance quality distance and governance quality can be combined. When that is not the case and one variable is excluded, the remaining variable is the dominant one.

4. Results

This chapter presents the results that have come forth from testing the two samples. The chapter is divided in two sections, each dedicated to the tests of one sample. First, the analysis of sample1 is presented, followed by the results of sample2.

4.1 Sample1

Table 7 gives the descriptive statistics of all variables and their correlations. It is obvious that the two independent variables, Governance Quality and Governance Quality Distance, are highly correlated. This high degree of correlation does not allow for the two variables to be tested simultaneously in the same model. Therefore, these two variables are introduced separately in two models.

Table 7
Correlation Matrix

Variable	Mean	S.D.	1	2	3
Governance Quality	0,5405	0,73590			
Governance Quality Distance	2,6005	1,67599	-0,988**		
Full Acquisition Exp.	6,5730	25,38000	-0,015	0,003	
Partial Acquisition Exp	4,4270	17,21607	-0,189*	0,193**	-0,067

* Correlation is significant at the 0.05 level
*** Correlation is significant at the 0.01 level

4.1.1 Model 1 – Control Variables

This section examines the results for model1, which only includes the control variables. It must be stressed that all correlations between the control variables are lower than 0.60, suggesting that multicollinearity is not a concern.

Table 8 provides the important statistical measures for evaluating model1 (see Appendix 5 for full table). As can be seen, both control variables are significant at the 0.05 significance level. Furthermore, the results are in line with previous studies. Specifically, a MNE is more likely to establish a partial acquisition when it has experience in that specific transaction. The negative coefficient for full acquisition experience indicates the reverse relation. Namely, the chances of establishing a full acquisition increase when firms have more experience with full acquisitions.

Finally, it is important to focus on the -2 Log Likelihood for three reasons. Firstly, this measure indicates how well the predictions of the model fit the sample observations. The model's fit increases when this value takes smaller values. Secondly, the following models, where one of the two independent variables has been added, are expected to have a -2 Log Likelihood that is smaller to that of model1. In other words, by introducing the independent variables, the goodness of fit is expected to increase. Finally, based on the log likelihoods of model2 and 3 it is possible to distinguish which one of the two independent variables provides the best predictions.

Table 8

Variable	Model 1	Model 2	Model 3
Governance Quality		-1,30***	
Governance Quality Distance			0,597***
Full Acquisition Exp	-0,087*	-0,097*	-0,094*
Shared Acquisition Exp	0,447*	0,392*	0,412*
Constant	-0, 342	0,403	-1,872
Chi-square	59,048	83,768	85,460
-2 Log Likelihood	185,889	161,169	159,477
R^2 (Cox & Snell)	0,282	0, 375	0, 381
R^2 (Nagelkerke)	0, 378	0, 502	0, 510
Overall prediction percentage	71,9	77,5%	78,1%
H-L Goodness of fit significance	0,302	0,903	0,515

*p < 0.05
***p < 0.01

4.1.2 Model 2 – Governance Quality

Model2 introduces Governance Quality as an independent variable to model1. Particularly, this model tests the hypothesis that countries with a lower governance quality are more likely to be entered by partial acquisition rather than a full one. The hypothesis is supported as the regression coefficient of the composite measure of Governance Quality is significantly negative in model2 (table 8) (see Appendix 5 for full table).

Furthermore, the log likelihood of model2 has decreased in comparison to model1. This is a strong indication that the addition of the Governance Quality variable is an improvement to the overall model. It also means that the predictions of model2 are much closer to the observations of the sample. According to the classification table produced by SPSS, the percentage of correctly classified observations is 77,5%. This percentage can be compared to the model that only includes the intercept. By doing this, SPSS is capable of correctly predicting 55,1% (which is the percentage of full acquisitions in the sample). In short, model 2 adds 22,4% to the prediction capability, an increase of 40,65%.

4.1.3 Model 3 – Governance Quality Distance

In this section the independent variable in model2 is replaced by Governance Quality Distance to create model3. More specifically, this model tests the hypothesis that MNEs are more likely to enter countries that have a large governance quality distance to their home country by partial acquisition. The hypothesis is supported as the regression coefficient of Governance Quality Distance is significantly positive in model3 (table 8) (see Appendix 5 for full table).

Model3 also improves the goodness of fit in comparison to model1. The log likelihood has significantly decreased, implying a better fit between predictions and observations. The percentage of correctly classified observations in this case is 78.1%, which represents an increase of 41.74%.

4.1.4 Evaluating models 2 and 3

In this section model2 and 3 are compared to identify the best fitting variable. The evaluation is based on the width of their 95% confidence intervals, the goodness of fit, the chi-squared difference, the log likelihood ratio and the overall prediction capacity. The model that scores best on these measures contains the most appropriate independent variable.

Normally, the model that has the narrowest 95% confidence interval is the one that better fits the observations. However, the 95% confidence intervals of models 2 and 3 cannot be compared. More specifically, the confidence interval for GQ is below 1 and can take values between 0 and 1. Alternatively, the confidence interval of GQD is above 1 and does not have a maximum. This statistical limitation makes the two confidence intervals incomparable.

Since the 95% confidence interval cannot help in comparing the models, the conclusion is derived from the remaining statistical measures. Table 9 displays the results for the two models.

Table 9

Results	Model 2 (Governance Quality)	Model 3 (Governance Quality Distance)
Chi-squared	83,768	85,460
Log Likelihood	80,5845	79,7385
Log Likelihood Ratio	1,153	1,165
Overall Prediction percentage	77,5%	78,1%
H-L Goodness of fit significance	0,903	0,515

The statistics in table 9 give an interesting insight about the fit between the predictions and the sample observations. The chi-square is testing whether the model with the predictors is significantly different from the intercept model. The omnibus test may be interpreted as a test of the capability of all predictors in the model jointly to predict the response (dependent) variable. Larger values of chi-squares are interpreted as improvements of the model. In this case, the chi-squared of model3 is somewhat larger than the one of model2. Therefore it can be concluded that governance quality distance is somewhat better in explaining the variation is the share of equity sought in cross-border acquisitions.

The same conclusion can also be drawn from the log likelihood scores. If one variable is a perfect linear function of another in the model then the log likelihood value tends to become 0. In other words, the lower the log likelihood, the better the fit. In this case the lowest log likelihood belongs to model3, supporting the previous conclusion.

Equally important is the overall prediction percentage that measures the correctly classified predictions of each model. In a perfect model, all cases are correctly classified and the overall prediction percentage is 100%. According to this comparison, the largest percentage belongs to

the model containing the governance quality distance. Specifically, model3 can predict 78,1% of the sample, which is 0,6% higher than model2.

Finally the Hosmer and Lemeshow (H-L) goodness of fit static confirms that both models are well-fitted. That is, well-fitted models show non-significance on the H-L goodness-of-fit test, indicating the model prediction is not significantly different from the observed values. This does not mean that the model necessarily explains much of the variance in the dependent, only that however much or little it does explain is significant. In table 9, both models are non-significant on this statistic, indicating a good fit.

4.2 Sample2

This section examines sample2 in an effort to answer the remaining hypothesis. Table 10 gives the descriptive statistics of all variables and their correlations. As expected, the correlation between GQD and GQ has significantly decreased in comparison to table 7 of sample1. This decrease can be attributed to the properties of sample2 (see section 3.2.3). Alternatively, the correlation of GQ to the asymmetric governance quality distance is higher. Particularly, the threshold of 0.6 is not reached, meaning that the two variables are still considered to be highly correlated. It becomes apparent that even by diversifying the sample it is not possible to completely cancel out the correlation between these two variables.

More important for sample2 and the third research question is the correlation between the two versions of governance quality distance. Table 10 shows that their correlation is 0.164, which is below the threshold of 0.6. Since multicollinearity is not present, the two variables can be included in the same model.

Table 10
Correlation Matrix

Variable	Mean	S.D.	1	2	3	4
Governance Quality	0,8907	0,83117				
Asymmetric Governance Q. Distance	0,061	2,53804	0,684**			
Governance Quality Distance	2,0987	1,42277	-0,438**	-0,164**		
Full Acquisition Exp.	5,1849	13,50616	-0,161**	0,008	-0,171**	
Partial Acquisition Exp	4,5396	20,62102	-0,123*	-0,151*	0,069	-0,085

* Correlation is significant at the 0.05 level
*** Correlation is significant at the 0.01 level

4.2.1 Model 4 – Control Variables

This section examines model4, where only the control variables have been added. Table 11 provides the necessary statistical measures for analyzing this model (see Appendix 6 for full table). A number of observations can be made by looking at these results. Firstly, all variables are significant in explaining cross-border acquisition patterns. More specifically, there is a negative relationship between full acquisition experience and partial cross-border acquisitions. In other words, companies that are experienced in entering a country by full acquisition will prefer

expanding by means of full acquisition. Alternatively, the relation between shared acquisition experience and partial cross-border acquisitions is positive.

Finally, the chi-squared is at a satisfactory level, implying that the addition of these control variables have increased the model fit. The log likelihood on the other hand is higher in comparison to model1 of sample1. In other words, the predictions of this model do not fit the sample as well as model1 does for sample1. However, this discrepancy could also be caused by the difference in sample sizes.

Table 11

Variable	Model 4	Model 5	Model 6	Model 7	Model 8
Governance Quality Distance		0,507***	0,400***		
Asemmetric Governance Q. Distance		exl.		-0,113*	
Governance Quality			-0,628***		-0,822***
Full Acquisition Exp	-0,062*	-0,052*	-0,049*	-0,064*	-0,053*
Shared Acquisition Exp	0,410***	0,363***	0,361*	0,400*	0,401*
Constant	-0,571	-1,685	-0,913	-0,551	0,114
Chi-square	64,358	88,552	99,020	68,426	86,503
-2 Log Likelihood	289,763	265,570	255,101	285,695	267,619
R^2 (Cox & Snell)	0,216	0,284	0,312	0,228	0,279
R^2 (Nagelkerke)	0,292	0,385	0,423	0, 309	0,378
Overall prediction percentage	72,8%	77.7%	79,6%	75,5%	75,8%
H-L Goodness of fit significance	0,156	0.597	0.076	0.010	0.009

*p < 0.05
***p < 0.01

4.2.2 Model 5 – Distance Asymmetry

To test the hypothesis of distance asymmetry, the two versions of governance quality distance are added to model4. This hypothesis states that the governance quality distance of country A to country B is not the same as the distance of country B to A. In other words, the probability of partial cross border acquisitions is expected to increase for negative governance quality distances (downward acquisitions).

To test whether this is true, GQD and the asymmetric governance quality distance are added to model4 (model5). By running a backward likelihood ratio logistic regression the fitness of the variables is tested. The least fitting variable with the lowest contribution is excluded from the final model. In this case the Asymmetric Governance Quality distance represents distance asymmetry while Governance Quality Distance holds that cross-border acquisitions are not influenced by the direction of the distance. The exclusion of either of the variables signifies the existence of asymmetry.

Table 11 shows the final model (model5) after the backward likelihood ratio logistic regression (see Appendix 6 for full table). The variables included in this model are Governance Quality Distance and the control variables measuring experience. The statistical procedure has excluded the Asymmetric Governance Quality Distance from the final model. In other words, there is no

support for the existence of asymmetry of distance. The addition of a sign to indicate the direction of distance does not improve the GQD variable.

In contrast to Asymmetric Governance Quality Distance, Governance Quality Distance is found to have a significant contribution to the model (a change in -2 log likelihood of 24,194). This variable is not asymmetric for the direction of distance but yet seems to have a greater contribution to the fitness of the model as well as its predictive capacity. The variable is significant at the 0.01 level and is positively related to partial cross border acquisitions. In particular, it appears that MNEs are more prone to establish a partial cross border acquisitions when the governance quality distance is large to the home country, regardless of the direction of distance.

Furthermore, this model has a higher chi-square in comparison to model 4 and also the log likelihood is decreased. Additionally, the prediction capacity has increased to 77.7% an increase of 21.36% from the intercept model. Finally, the Hosmer and Lemeshow goodness of fit test is insignificant, meaning that the model prediction is not significantly different from the observed values. All in all, the addition of Governance Quality Distance seems to improve the model.

4.2.3 Model 6 – The Combined Effect of GQ and GQD

Model6 tests the last hypothesis which states that the GQD variable and GQ can be combined to predict the cross-border acquisition pattern. In particular, the hypothesis states that for a given GQD, the entry mode into a low governance quality host country has a higher probability of being a partial acquisition.

Combining the two variables is statistically possible as can be seen by their correlation in table 11 (see Appendix 6 for full table). The threshold of 0,6 is not reached, meaning that multi-colinearity is not a concern. The results of model6 are presented in table 11. The regression coefficients of the of the two governance variables support the hypothesis, as both variables are significant at the 0,01 significance level and the coefficients have the right sign. Governance distance has a positive effect on the degree of ownership in cross-border acquisitions. At the same time, Governance Quality has a significantly negative regression coefficient, which means that low governance quality host countries are most likely entered with partial ownership acquisitions.

Furthermore, the model is well fitted according to the H-L Goodness of fit test, meaning that the results are reliable. Additionally, the log likelihood has decreased compared to model5 and model4, indicating that the combination of the two variables is more appropriate than using them separately. Finally, a very interesting finding is the overall prediction percentage, which also has improved in comparison to model5. Model6 exceeds the prediction capacity of model5 by almost 2%. Compared to the intercept model, model6 has increased the prediction capacity by 23.24%.

In conclusion, model6 is superior to the models that test the governance variables separately[5].

[5] To support this conclusion a number of additional analyses have been performed. The purpose of the additional analyses and their statistical results can be found in Appendix 7.

4.3 Logistic Regression Function

The analysis of sample2 has pointed to the combination of governance quality and governance quality distance as the dominant model. From the statistic results in table 11 it is possible to construct the logistic regression function for this model. Equation 2 presents the function.

Equation 2:

$$f(z) = \frac{1}{1 + e^{-z}}$$

Where,

$$z = \beta 0 + \beta 1x1 + \beta 2x2 + \beta 3x3 + \beta 4x4$$

Where

β0 = intercept
β1 = regression coefficient of Governance Quality Distance (x1)
β2 = regression coefficient of Governance Quality (x2)
β3 = regression coefficient of Full Ownership Experience (x3)
β4 = regression coefficient of Shared Ownership Experience (x4)

Thus

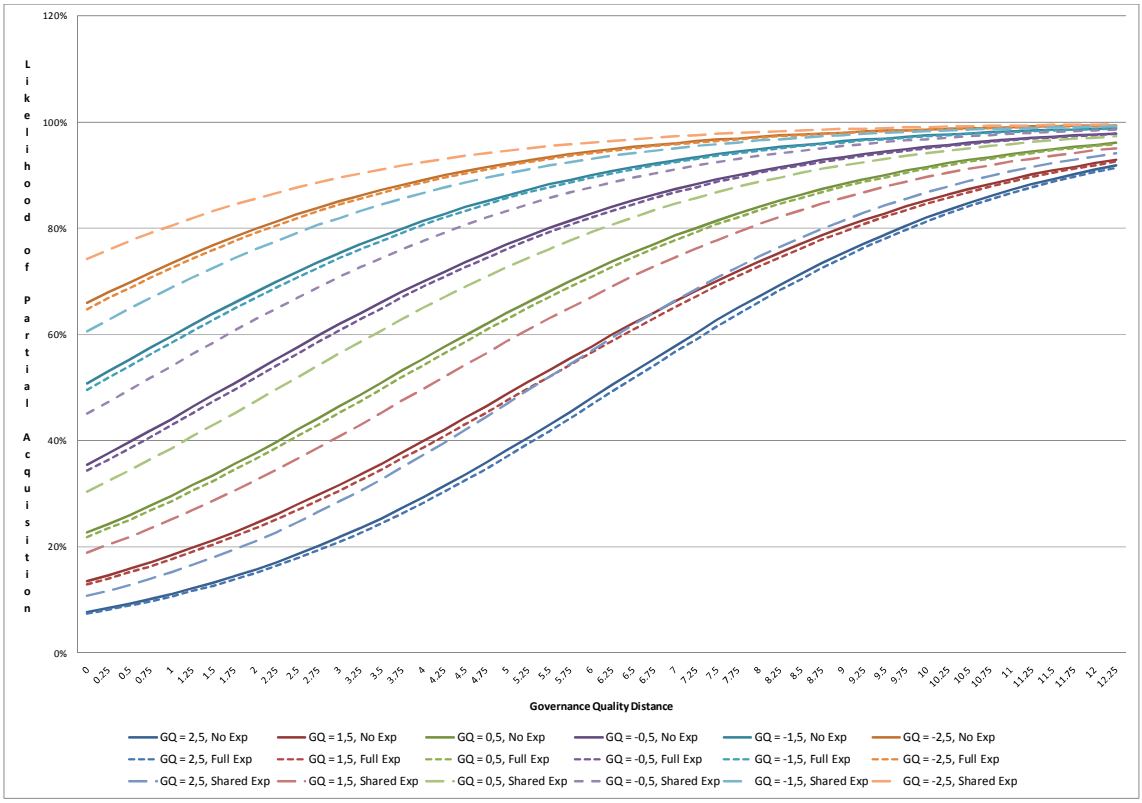
$$z = -0{,}913 + 0{,}4 * x1 - 0{,}628 * x2 - 0{,}049 * x3 + 0{,}316 * x4$$

With this function at hand it is possible to graph the model. The graph is produced by letting one variable ascent while controlling for the remaining three. Graph 1 on the following page depicts the likelihood that a MNE will choose for a partial acquisition as governance quality distance increases. The line is reproduced six times to capture the effect of governance quality (2.5, 1.5, 0.5, -0.5, -1.5, -2.5). More specifically, all the blue lines represent the likelihood of a partial acquisition occurring when GQD is ascending and GQ is equal to 2.5. Similarly, the red lines represent the occurrence of a partial acquisition for a GQ equal to 1.5, a decrease of one in comparison to the blue line. Each group of differently colored lines has undergone a reduction in GQ of one. The graph shows that for each decrease in GQ the line shifts to the right, thereby increasing the probability of a partial acquisition for a given GQD.

Furthermore, the intermitted lines represent the effect of experience. The ones with the small dashes depict the effect of full acquisition experience, while the others represent the effect of shared acquisition experience. The continuous line represents the full acquisition pattern when MNEs have no prior cross-border acquisition experience. Striking is the effect that shared

acquisition experience has on the likelihood of making a partial acquisition. In particular, MNEs that possess such experience can have up to 10% higher chance of performing a partial acquisition. Put differently, the presence of experience can shift the curve either upwards or downwards.

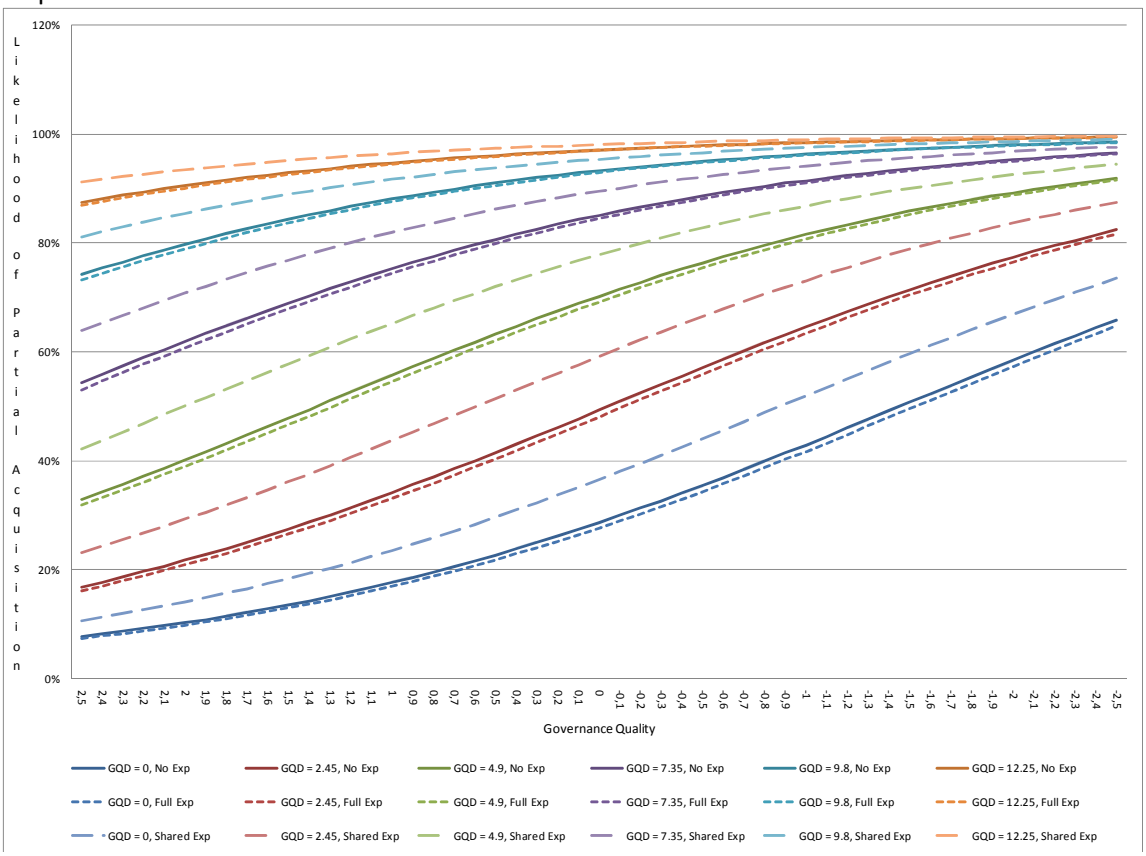
Graph 1.



The next graph (Graph 2) is similar to graph 1, only this time it is governance quality distance that is controlled. Each group of similarly colored lines represents an increase of 2.45 on the governance quality distance scale (0, 2.45, 4.9, 7.35, 9.8, 12.25). Graph 2 shows that as GQD increases, the line shifts to the right for a change in GQ.

Similarly to the previous graph, graph 2 shows the effect of experience on cross-border acquisitions. Again the continuous line represents the partial acquisition pattern of MNEs with no prior experience, while the intermitted lines show the alteration when experience is a relevant matter. As in graph 1, the possession of shared acquisition experience has the strongest effect on the choice of acquisition, which in some cases alters the outcome by up to 10%.

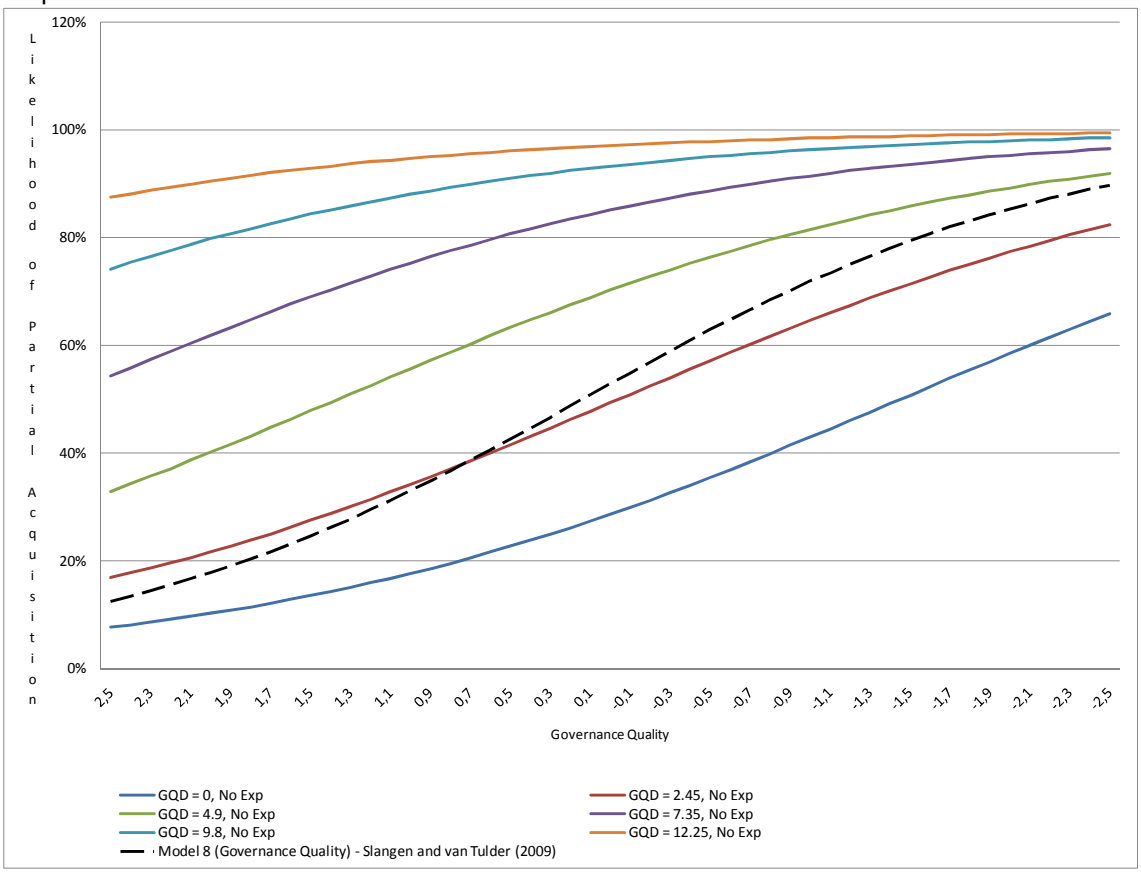
Graph 2.



Finally, two more graphs are included to provide further support for model6 in comparison to model8 (graph 3) and model 5 (graph 4). Graph 3 depicts the curves derived from two different functions. The continuous lines are derived from equation 2 and are basically a representation of model6. The black dashed line is derived from the function of model8, where governance quality is the only independent variable. This visual representation is a convenient way to compare the variable that Slangen and van Tulder (2009) have introduced to the combination of variables suggested in this study.

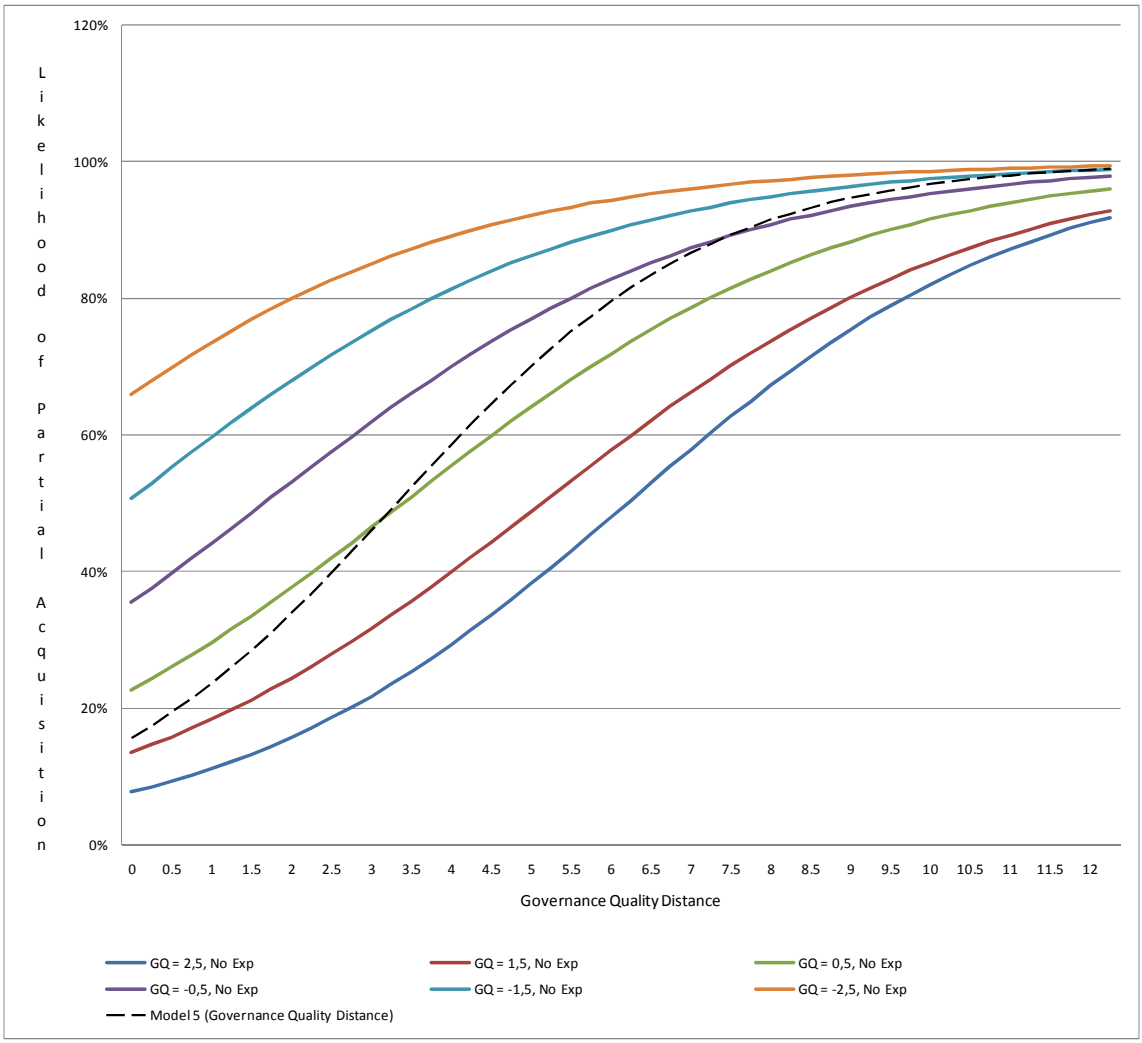
One obvious improvement of model 6 is found at the start of the lines, where GQ is 2.5 (graph 3). At that point, model8 predicts a 12.5% chance of establishing a partial cross-border acquisition. Nevertheless, such prediction cannot be fully supported by the current model. In particular, the current model supports this prediction only when the GQD between home and host country is up to 1.6. When the GQD increases from that point on, the probability of a partial acquisition significantly increases. A good example is when governance quality distance is at 7.35. Graph 3 shows that the probability of a partial acquisition in this case is 54%. This is a difference of 41.5% in comparison to model8. Alternatively, for host countries with GQ equal to 0.1 the curve of model8 passes through the 50% mark. However, according to model6, this probability can be 97% if the governance quality distance is close to zero. This translates into a prediction difference of 47%.

Graph 3.



All in all, the use of the logistic function and the graphs concludes that model6 is the most appropriate one. This model describes the choice between full and partial ownership for cross-border acquisitions by combining the governance quality (Slangen and van Tulder, 2009) and governance quality distance. Graph 3 includes the closest model to the one recommended by Slangen and van Tulder (2009) (model8). Its comparison to model6 shows clearly the improvement that is achieved by combining the variables. More in detail, when the Netherlands is the host country (Governance Quality = 1,72), then model8 predicts a 20% probability for a partial acquisition (graph 3). In contrast, model6 conditionalizes this prediction by taking governance quality distance into account. Indeed when the Netherlands is entered by another high governance quality country such as Canada (1,69) the governance quality distance is 0.27 and therefore the probability of a partial acquisition is also 20%. However, when the Netherlands is entered by India (-0,255), the governance quality distance is 4.9 therefore predicting a likelihood of 45% for the Dutch firm to be partially acquired.

Graph 4.


Likelihood of Partial Acquisition
120%
100%
80%
60%
40%
20%
0%
0 0.5 1 1.5 2 2.5 3 3.5 4 4.5 5 5.5 6 6.5 7 7.5 8 8.5 9 9.5 10 10.5 11 11.5 12
Governance Quality Distance
GQ = 2,5, No Exp
GQ = 1,5, No Exp
GQ = 0,5, No Exp
GQ = -0,5, No Exp
GQ = -1,5, No Exp
GQ = -2,5, No Exp
Model 5 (Governance Quality Distance)

5. Conclusions

In their study, Slangen and van Tulder (2009), prove that the choice made by MNEs between entering foreign countries though JVs or through WOSs depends to a considerable extent on the level of external uncertainty in the target country. Also, they were able to model this uncertainty with the help of Kaufmann's et al. (2004) dimensions. Nevertheless, the scholars point out that the choice by MNEs between full and shared ownership in cross-border acquisitions may be driven by differences in governance quality levels between home and host countries rather than absolute host-country governance quality levels. This study provides support for their recommendation.

At first, their recommendation is supported for downward acquisitions (sample1). This sample allows only for one-directional cross-border acquisitions from high governance quality home countries to lower governance quality host countries. Under these conditions, governance quality distance has a significantly positive effect on partial acquisitions (H2). In other words, when the distance between the governance qualities of home and host country is large, then the probability of a partial cross-border acquisition is high. In more general terms, a large governance quality distance translates into a large degree of uncertainty, which encourages MNEs to make partial acquisitions.

When comparing the model that contains GQ (model2) to that of GQD (model3) there are some noteworthy points. The model that includes Governance Quality Distance (model3) has higher adjusted R^2. Also, it has a higher prediction capacity in comparison to model2. Nonetheless, the differences between the two variables are minimal, to the point that no clear distinction can be made. Furthermore, the correlation between the two variables is above the 0.8 threshold which allows the conclusion that the variables are identical.

This limitation is overcome with the construction of sample2. Instantly testing for the "illusion of symmetry" becomes possible and hypothesis 4 (H4) is rejected. Governance Quality Distance Asymmetry (model 7) does not influence the ownership level of CBAs and its addition does not improve the fitness of the model (table 11, pp. 28). In other words, knowing whether an acquisition is "upward" or "downward" does not significantly add to the prediction of the ownership level outcome. Distance asymmetry has repeatedly been a topic of discussion for the cultural distance index (Shenkar, 2001). Though it is believed to be a major limitation for that index, it does not appear to influence the governance quality distance index. Alternatively, the decision is based purely on the "proximity" of home and host country. AS Xu and Shenkar (2002) put it, the choice between full and partial acquisitions may be driven by the similarity or dissimilarity of the regulatory environment between two countries.

Knowing that governance quality distance is not influenced by the direction of the acquisition, allows the variable to be combined with governance quality. This combination proves that the choice between shared and full acquisitions is based, for one part, on the distance of the host country to the home one, in other words the similarity between the two countries. For the other part, the choice is also based on the absolute value of the host country's governance quality (H5

and H6). In other words, for any given host-country governance quality, the share of equity sought by MNEs in cross-border acquisitions is influenced by the governance quality distance between the concerned countries (Graph 2). Alternatively, for any given governance quality distance, the share of equity sought by MNEs in cross-border acquisitions is affected by the governance quality of the host (Graph 3). Striking is also the effect of experience on the choice between full and partial acquisitions. Specifically, when the MNE has experience with establishing partial acquisitions, then the probability of that MNE using that entry mode in future expansions increases (Graph 2 and 3).

Finally this thesis shows how Slangen and van Tulder's model can be improved by introducing governance quality distance (Graph 3). In particular, Slangen and van Tulder's (2009)[6] model predicts a low probability of a partial acquisition when the host country has a high governance quality value. By adding governance quality distance however, it becomes apparent that the likelihood of a partial acquisition is conditional on the dissimilarity between the involved countries. For example, the likelihood of a partial acquisition within a host-country with a high governance quality increases when the governance quality distance to that country also increases.

All in all, it can be said that MNEs adapt their strategic choices in such a way that they maintain an optimal level of strategic control over their foreign subsidiaries, and also maximize the benefits provided by local partners in terms of institutional transition and local legitimacy (Xu et al., 2004). Firms can view the differences in regulatory environments between the home and host-country as a source of competitive (dis)advantage and design strategies accordingly in the global competition.

[6] Slangen and van Tulder's (2009) model is represented by model8 in this thesis. Model8 includes the variable suggested by these authors, namely Governance Quality.

6. Limitations

One of the major limitations of this study relates to the high correlation between governance quality and governance quality distance during the examination of sample1. Despite following the recommendation of Slangen and van Tulder (2009) to use a sample with multiple home countries, the high correlation between the measures did not smooth out. The reason for this shortcoming is related to the similar position of the home-countries on the governance quality scale within sample1.

This limitation can be generalized to all high governance quality home countries. In particular, the measures of governance quality distance and governance quality will always be highly correlated when the home country is positioned high on the governance quality scale.

One more limitation of this thesis is that data has only been gathered and examined for one calendar year, namely 2003. The effect of this limitation is twofold. Firstly, by only using data from 2003 the results are not easily comparable to those of Slangen and van Tulder (2009) who used data from a period of 1996 to 2003. Secondly, by using only one calendar year, one of the advantages of the governance quality index is not exploited namely it's dynamic property. In detail, Kaufmann et al. (2004) adjust their index on a yearly basis, meaning that a single country may not score the same on the index for two consecutive years. Therefore, by not using data from more than one year, it is not possible to test whether yearly fluctuations in governance quality affect the equity share sought by MNEs in cross-border acquisitions (Xu et al., 2004).

Furthermore, the samples of this study are already heavily fragmented. To avoid further fragmentation, the study does not control for industry effects. Particularly, Slangen and van Tulder (2009) have distinguished between manufacturing and service MNE and found no significant difference between the two. It is recommended that future studies should focus on industries with specific characteristics to examine whether the dissimilarities of the external environment still have the same effect on the share of equity sought (Kogut and Singh, 1988).

In their study, Uhlenbruck et al. (2006), control for the economic conditions of the external environment by considering GDP and Income per capita. The use of these control variables does not fit the models being tested in this study (see Appendix 3). Nevertheless, it is recommended that future studies also consider the economic environment along with the institutional one (Xu et al., 2004).

A final limitation of this study is that the different types of partial acquisitions are not taken into account. Particularly, the thesis does not distinguish between majority-owned, 50-50 owned and minority-owned acquisitions. It would, however, be very interesting to see how the external uncertainty of a foreign country affects these types of partial acquisitions (Xu et al., 2004).

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Appendix 1

These are the six dimensions that constitute GQ and their definitions.

1. Voice and Accountability (VA) captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

2. Political Stability and Absence of Violence (PV) captures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.

3. Government Effectiveness (GE) captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

4. Regulatory Quality (RQ) captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

5. Rule of Law (RL) captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

6. Control of Corruption (CC) captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

Appendix 2

This appendix includes eleven tables, one for every home-country used in this thesis. Each table shows the host-countries that have been entered by an MNE situated in the home-country of that table. Additionally, each for each host-country the table depicts the absolute governance quality and the governance quality distance to the home-country of the table.

Appendix 2 – Table 1. Home-country: Germany

Home-Country	Host-Country	Governance Quality	Governance Quality Distance
Germany	Germany	1,471	0,000
	Australia	1,613	0,505
	Japan	1,133	1,257
	Italy	0,796	1,872
	Slovakia	0,693	2,356
	Malaysia	0,385	2,949
	Brazil	0,128	3,479
	Romania	-0,023	3,927
	Turkey	-0,144	4,006
	India	-0,263	4,349
	Argentina	-0,322	4,602
	Philippines	-0,405	4,692
	China	-0,525	5,091
	Russia	-0,602	5,187
	Ukraine	-0,658	5,397
	Indonesia	-0,924	5,946
	Pakistan	-0,955	5,965

Appendix 2 – Table 2. Home-country: Italy

Home-Country	Host-Country	Governance Quality	Governance Quality Distance
Italy	Italy	0,796	0,000
	South Africa	0,356	1,258
	France	1,216	1,264
	Spain	1,241	1,334
	United States	1,368	1,724
	Thailand	0,099	1,731
	Belgium	1,475	1,755
	Germany	1,471	1,872
	United Kingdom	1,533	2,083
	Netherlands	1,722	2,386
	Finland	1,945	2,944
	China	-0,525	3,492
	Cote d'Ivoire	-1,202	4,941

Appendix 2 – Table 3. Home-country: United Kingdom

Home-Country	Host-Country	Governance Quality	Governance Quality Distance
United Kingdom	United Kingdom	1,533	0,000
	Austria	1,605	0,419
	Spain	1,241	0,868
	Chile	1,176	1,242
	Singapore	1,503	1,430
	Japan	1,133	1,523
	Estonia	1,025	1,793
	Italy	0,796	2,083
	Greece	0,800	2,173
	Poland	0,646	2,623
	United Arab Emirates	0,567	2,877
	South Africa	0,356	3,065
	Mexico	0,026	3,909
	Romania	-0,023	4,162
	India	-0,263	4,531
	China	-0,525	5,232
	Kazakhstan	-0,725	5,886

Appendix 2 – Table 4. Home-country: The Netherlands

Home-Country	Host-Country	Governance Quality	Governance Quality Distance
The Netherlands	Netherlands	1,722	0,000
	Canada	1,686	0,268
	Denmark	1,831	0,313
	Sweden	1,820	0,388
	Switzerland	1,802	0,429
	United Kingdom	1,533	0,632
	Finland	1,945	0,654
	Portugal	1,256	1,397
	Japan	1,133	1,656
	Hungary	0,963	2,153
	Poland	0,646	2,875
	Malaysia	0,385	3,413
	Croatia	0,291	3,648
	Romania	-0,023	4,468
	India	-0,263	4,978
	Peru	-0,310	5,048
	Saudi Arabia	-0,309	5,172
	China	-0,525	5,621
	Ecuador	-0,629	5,852

Appendix 2 – Table 5. Home-country: United States

Home-Country	Host-Country	Governance Quality	Governance Quality Distance
United States	United States	1,368	0,000
	Spain	1,241	0,450
	Chile	1,176	1,061
	Portugal	1,256	1,213
	Puerto Rico	0,959	1,407
	Finland	1,945	1,669
	Hungary	0,963	1,726
	Czech Republic	0,863	1,896
	Korea, South	0,634	2,037
	Israel	0,461	2,469
	Croatia	0,291	2,957
	Thailand	0,099	3,341
	Turkey	-0,144	3,751
	Peru	-0,310	4,222
	Russia	-0,602	4,951
	Colombia	-0,702	5,136
	Indonesia	-0,924	5,663
	Venezuela	-1,020	5,966

Appendix 2 – Table 6. Home-country: Brazil

Home-Country	Host-Country	Governance Quality	Governance Quality Distance
Brazil	Brazil	0,626	0,000
	Uruguay	0,626	1,391
	Ecuador	1,256	1,933
	Portugal	1,256	2,818
	United States	1,368	3,325

Appendix 2 – Table 7. Home-country: China

Home-Country	Host-Country	Governance Quality	Governance Quality Distance
China	China	-0,525	0,000
	Kazakhstan	-0,725	1,279
	Azerbaijan	-0,883	1,506
	Ecuador	-0,629	1,751
	Japan	1,133	4,193
	Hong Kong	1,187	4,262
	Australia	1,613	5,388

Appendix 2 – Table 8. Home-country: India

Home-Country	Host-Country	Governance Quality	Governance Quality Distance
India	India	-0,263	0,000
	Philippines	-0,405	0,775
	Thailand	0,099	1,383
	Egypt	-0,511	1,441
	Brazil	0,128	1,560
	Fiji	-0,042	1,652
	Korea, South	0,634	2,360
	Italy	0,796	2,761
	Sudan	-1,481	3,131
	United Arab Emirates	0,567	3,144
	France	1,216	3,735
	United States	1,368	4,088
	Germany	1,471	4,349
	United Kingdom	1,533	4,531
	Australia	1,613	4,697
	Singapore	1,503	4,964

Appendix 2 – Table 9. Home-country: Japan

Home-Country	Host-Country	Governance Quality	Governance Quality Distance
Japan	Japan	1,133	0,000
	Taiwan	0,920	0,677
	Hong Kong	1,187	1,196
	Germany	1,471	1,257
	Korea, South	0,634	1,356
	United States	1,368	1,363
	Austria	1,605	1,452
	United Kingdom	1,533	1,523
	Switzerland	1,802	1,761
	Croatia	0,291	2,162
	Brazil	0,128	2,592
	Thailand	0,099	2,603
	India	-0,263	3,638
	Philippines	-0,405	3,947
	China	-0,525	4,193
	Vietnam	-0,572	4,328
	Iran	-0,791	4,774

Appendix 2 – Table 10. Home-country: Russia

Home-Country	Host-Country	Governance Quality	Governance Quality Distance
Russia	Russia	-0,602	0,000
	Serbia	-0,582	0,737
	Armenia	-0,372	0,795
	China	-0,525	1,245
	Uzbekistan	-1,327	1,963
	Bulgaria	0,224	2,145
	Croatia	0,291	2,248
	Latvia	0,735	3,365
	Lithuania	0,811	3,525
	Estonia	1,025	4,009
	Spain	1,241	4,589
	United States	1,368	4,951
	Ireland	1,464	5,096
	United Kingdom	1,533	5,353

Appendix 2 – Table 11. Home-country: South Korea

Home-Country	Host-Country	Governance Quality	Governance Quality Distance
South Korea	Korea, South	0,634	0,000
	Thailand	0,099	1,346
	Japan	1,133	1,356
	Hong Kong	1,187	1,840
	United States	1,368	2,037
	Vietnam	-0,572	3,332
	Cambodia	-0,808	3,621
	Indonesia	-0,924	3,924

Appendix 3

This appendix provides the sample characteristics of sample2 per home-country. The following table presents the acquisition made by MNE situated in Brazil and China.

Home - Country	Interval	Host – Country	Full	Partial
Brazil	+ 11	-	-	-
	+ 10	-	-	-
	+ 9	-	-	-
	+ 8	-	-	-
	+ 7	United States	1	0
	+ 6	Portugal	0	1
	+ 5		-	-
	+ 4		-	-
	+ 3	Uruguay	1	0
	+ 2	-	-	-
	+ 1	-	-	-
	- 1	-	-	-
	- 2	-	-	-
	- 3	-	-	-
	- 4	-	-	-
	- 5	Ecuador	0	1
	- 6	-	-	-
	- 7	-	-	-
	- 8	-	-	-
	- 9	-	-	-
	- 10	-	-	-
	- 11	-	-	-
	- 12	-	-	-
		Sum	2	2
		Percentage	50,00%	50,00%
			Total	4

Home - Country	Interval	Host – Country	Full	Partial
China	+ 11	Australia	0	2
	+ 10	-	-	-
	+ 9	Hong Kong	1	3
		Japan	0	1
	+ 8	-	-	-
	+ 7	-	-	-
	+ 6	-	-	-
	+ 5	-	-	-
	+ 4	-	-	-
	+ 3	-	-	-
	+ 2	-	-	-
	+ 1	-	-	-
	- 1	-	-	-
	- 2	-	-	-
	- 3	Kazakhstan	0	1
	- 4	Azerbaijan	0	1
		Ecuador	0	1
	- 5	-	-	-
	- 6	-	-	-
	- 7	-	-	-
	- 8	-	-	-
	- 9	-	-	-
	- 10	-	-	-
	- 11	-	-	-
	- 12	-	-	-
		Sum	1	9
		Percentage	10,00%	90,00%
			Total	10

The following table presents the acquisition made by MNE situated in India and Italy.

Home - Country	Interval	Host – Country	Full	Partial
India	+ 11	-	-	-
	+ 10	Australia	1	1
		Singapore	0	1
		United Kingdom	7	0
	+ 9	Germany	1	1
		South Korea	1	0
		United States	7	3
	+ 8	France	1	0
	+ 7	Unit. Arab Em.	1	0
	+ 6	Italy	0	1
	+ 5	-	-	-
	+ 4	Brazil	1	0
		Fiji	0	1
	+ 3	Thailand	1	0
	+ 2	-	-	-
	+ 1	-	-	-
	- 1	-	-	-
	- 2	Philippines	0	1
	- 3	Egypt	0	2
	- 4	-	-	-
	- 5		-	-
	- 6	-	-	-
	- 7	Sudan	0	2
	- 8	-	-	-
	- 9	-	-	-
	- 10	-	-	-
	- 11	-	-	-
	- 12	-	-	-
		Sum	21	13
		Percentage	61,76%	38,24%
			Total	34

Home - Country	Interval	Host – Country	Full	Partial
Italy	+ 11	-	-	-
	+ 10	-	-	-
	+ 9	-	-	-
	+ 8	-	-	-
	+ 7	-	-	-
	+ 6	Finland	1	0
	+ 5	Netherlands	0	1
		United Kingdom	6	1
	+ 4	Belgium	1	0
		Germany	4	4
		United States	2	0
	+ 3	France	9	2
		Spain	10	1
	+ 2	-	-	-
	+ 1	-	-	-
	- 1	-	-	-
	- 2	-	-	-
	- 3	South Africa	1	0
	- 4	Thailand	1	0
	- 5	-	-	-
	- 6	-	-	-
	- 7	China	0	1
	- 8	-	-	-
	- 9	-	-	-
	- 10	Cote d'Ivoire	0	1
	- 11	-	-	-
	- 12	-	-	-
		Sum	35	11
		Percentage	76,09%	23,91%
			Total	46

The following table presents the acquisition made by MNE situated in Japan and the Netherlands.

Home - Country	Interval	Host – Country	Full	Partial
Japan	+ 11	-	-	-
	+ 10	-	-	-
	+ 9	-	-	-
	+ 8	-	-	-
	+ 7	-	-	-
	+ 6	-	-	-
	+ 5	-	-	-
	+ 4	Switzerland	1	0
		United Kingdom	1	1
	+ 3	Austria	1	0
		Germany	1	2
		Hong Kong	0	1
		United States	13	4
	+ 2	-	-	-
	+ 1	-	-	-
	- 1	-	-	-
	- 2	Taiwan	1	0
	- 3	South Korea	0	2
	- 4	-	-	-
	- 5	Croatia	1	0
	- 6	Brazil	0	2
		Thailand	1	1
	- 7	-	-	-
	- 8	India	0	3
		Philippines	1	0
	- 9	China	0	4
		Vietnam	0	1
	- 10	Iran	0	1
	- 11	-	-	-
	- 12	-	-	-
		Sum	21	22
		Percentage	48,84%	51,16%
			Total	43

Home - Country	Interval	Host – Country	Full	Partial
the Netherlands	+ 11	-	-	-
	+ 10	-	-	-
	+ 9	-	-	-
	+ 8	-	-	-
	+ 7	-	-	-
	+ 6	-	-	-
	+ 5	-	-	-
	+ 4	-	-	-
	+ 3	-	-	-
	+ 2	Finland	1	0
	+ 1	Denmark	2	1
		Sweden	5	1
		Switzerland	1	0
	- 1	United Kingdom	14	3
	- 2	-	-	-
	- 3	-	-	-
	- 4	Japan	0	1
	- 5	Hungary	1	0
	- 6	Poland	1	1
	- 7	-	-	-
	- 8	Croatia	0	1
	- 9	-	-	-
	- 10	-	-	-
	- 11	-	-	-
	- 12	China	0	2
		Ecuador	0	1
		Sum	25	10
		Percentage	71,43%	28,57%
			Total	35

The following table presents the acquisition made by MNE situated in Russia and South Korea.

Home - Country	Interval	Host – Country	Full	Partial
Russia	+ 11	Ireland	1	0
		United Kingdom	0	1
	+ 10	Spain	0	1
		United States	1	0
	+ 9	Estonia	0	1
	+ 8	Lithuania	1	0
	+ 7	Latvia	1	0
	+ 6	-	-	-
	+ 5	Bulgaria	1	0
		Croatia	1	0
	+ 4	-	-	-
	+ 3	China	0	1
	+ 2	Armenia	2	2
		Serbia	0	2
	+ 1	-	-	-
	- 1	-	-	-
	- 2	-	-	-
	- 3	-	-	-
	- 4	Uzbekistan	0	3
	- 5	-		
	- 6	-	-	-
	- 7	-	-	-
	- 8	-	-	-
	- 9	-	-	-
	- 10	-	-	-
	- 11	-	-	-
	- 12	-	-	-
		Sum	8	11
		Percentage	42,11%	57,89%
			Total	19

Home - Country	Interval	Host – Country	Full	Partial
South Korea	+ 11	-	-	-
	+ 10	-	-	-
	+ 9	-	-	-
	+ 8	-	-	-
	+ 7	-	-	-
	+ 6	-	-	-
	+ 5	United States	3	0
	+ 4	Hong Kong	0	1
	+ 3	Japan	0	1
	+ 2	-	-	-
	+ 1	-	-	-
	- 1	-	-	-
	- 2	-	-	-
	- 3	Thailand	0	1
	- 4	-	-	-
	- 5	-	-	-
	- 6	-	-	-
	- 7	Vietnam	0	1
	- 8	Cambodia	0	1
		Indonesia	0	1
	- 9	-	-	-
	- 10	-	-	-
	- 11	-	-	-
	- 12	-	-	-
		Sum	3	6
		Percentage	33,33%	66,67%
			Total	9

The following table presents the acquisition made by MNE situated in the United States.

Home - Country	Interval	Host – Country	Full	Partial
United States	+ 11	-	-	-
	+ 10	-	-	-
	+ 9	-	-	-
	+ 8	-	-	-
	+ 7	-	-	-
	+ 6	-	-	-
	+ 5	-	-	-
	+ 4	-	-	-
	+ 3	-	-	-
	+ 2	Finland	5	1
	+ 1	-	-	-
	- 1	Spain	10	0
	- 2	Chile	1	2
		Portugal	1	1
	- 3	Hungary	2	0
		Israel	2	2
		Puerto Rico	5	1
	- 4	Czech Republic	5	2
		South Korea	4	6
	- 5	Croatia	1	0
	- 6	Thailand	1	1
	- 7	Colombia	0	1
	- 8	Russia	4	3
	- 9	Indonesia	0	1
	- 10	Venezuela	0	2
	- 11	-	-	-
	- 12	-	-	-
		Sum	41	23
		Percentage	64,06%	35,94%
			Total	64

Appendix 4 – Excluded control variables

The two omitted control variables were initially considered for controlling for the economic environment (Uhlenbruck et al., 2006 and Xu et al., 2004). In particular the variables used were host-country GDP and GDP per capita. According to Uhlenbruck et al. (2006), GDP measured in constant dollars and adjusted for price level, serves as a broad proxy for market size. Additionally, GDP per capita measured in thousands inflation-adjusted dollars indicate the potential of that market to grow.

Before excluding these variables they were tested on sample1. In particular they were added along with full acquisition experience and partial acquisition experience to test the effect of governance quality on the equity share sought. The following table shows the statistical results.

Logistic Regression Estimates of the Likelihood of Partial Acquisitions

				95% Confidence Interval		
Variable	**B**	**Wald**	**Sig.**	**Lower**	**Exp(b)**	**Upper**
Governance Quality	-1,682	12,021	0,001	0,072	0,186	0,481
Full Acquisition Experience	-0,101	6,289	0,012	0,836	0,904	0,978
Shared Acquisition Experience	0,387	4,787	0,029	1,041	1,472	2,082
GDP	0,000	0,059	0,808	1,000	1,000	1,000
GDP per Capita	0,000	1,375	0,241	1,000	1,000	1,000
Constant	-0,076	0,024	0,877		0,927	
Chi-square	85,389					
-2 Log Likelihood	159,549					
R^2 (Cox & Snell)	0,381					
R^2 (Nagelkerke)	0,510					
Overall prediction percentage	75,8%					
H-L Goodness of fit significance	0.758					

The two variables controlling for economic conditions seem to not fit the model. In particular, the variables both have a coefficient of zero and it seems that the 95% confidence interval is one. Additionally, the variables are insignificant. Therefore, GDP and GDP per capita are not included as control variables for this study[7].

[7] The control variables were also tested in combination with governance quality distance instead of governance quality. Still, the coefficients, 95% confidence interval and significance did not change.

Appendix 5 – Sample 1

This appendix contains the complete table of the statistical results for each individual model testing sample1.

1. *Model 1 – Control Variables*

Logistic Regression Estimates of the Likelihood of Partial Acquisitions

				95% Confidence Interval		
Variable	**B**	**Wald**	**Sig.**	**Lower**	**Exp(b)**	**Upper**
Full Acquisition Experience	-0,087	5,821	0,016	0,855	0,917	0,984
Shared Acquisition Experience	0,447	5,377	0,020	1,072	1,563	2,280
Constant	-0,342	3,296	0,069		0,710	
Chi-square	59,048					
-2 Log Likelihood	185,889					
R^2 (Cox & Snell)	0,282					
R^2 (Nagelkerke)	0,302					

2. *Model 2 – Governance Quality*

Logistic Regression Estimates of the Likelihood of Partial Acquisitions

				95% Confidence Interval		
Variable	**B**	**Wald**	**Sig.**	**Lower**	**Exp(b)**	**Upper**
Governance Quality	-1,30	20,550	0,000	0,155	0,272	0,478
Full Acquisition Experience	-0,097	6,201	0,013	0,841	0,908	0,980
Shared Acquisition Experience	0,392	4,883	0,027	1,045	1,481	2,097
Constant	0,403	2,335	0,127		1,496	
Chi-square	83,768					
-2 Log Likelihood	161,169					
R^2 (Cox & Snell)	0,375					
R^2 (Nagelkerke)	0,502					

3. Model 2 – Governance Quality Distance

Logistic Regression Estimates of the Likelihood of Partial Acquisitions

				95% Confidence Interval		
Variable	**B**	**Wald**	**Sig.**	**Lower**	**Exp(b)**	**Upper**
Governance Quality Distance	0,597	21,796	0,000	1,414	1,816	2,333
Full Acquisition Experience	-0,094	5,853	0,016	0,843	0,910	0,982
Shared Acquisition Experience	0,412	5,305	0,021	1,063	1,509	2,143
Constant	-1,872	23,170	0,000		0,154	
Chi-square	85,460					
-2 Log Likelihood	159,477					
R^2 (Cox & Snell)	0,381					
R^2 (Nagelkerke)	0,510					

Appendix 6 – Sample 2

This appendix contains the complete table of the statistical results for each individual model testing sample2.

1. *Model 4 – Control Variables*

Logistic Regression Estimates of the Likelihood of Partial Acquisitions

				95% Confidence Interval		
Variable	**B**	**Wald**	**Sig.**	**Lower**	**Exp(b)**	**Upper**
Full Acquisition Experience	-0,062	7,253	0,007	0,898	0,940	0,983
Shared Acquisition Experience	0,410	10,193	0,001	1,171	1,506	1,937
Constant	-0,571	13,935	0,000		0,565	
Chi-square	64,358					
-2 Log Likelihood	289,763					
R^2 (Cox & Snell)	0,216					
R^2 (Nagelkerke)	0,292					

2. *Model 5 – Distance Assymetry*

Logistic Regression Estimates of the Likelihood of Partial Acquisitions

				95% Confidence Interval		
Variable	**B**	**Wald**	**Sig.**	**Lower**	**Exp(b)**	**Upper**
Governance Quality Distance	0,507	21,908	0,000	1,343	1,660	2,052
Full Acquisition Experience	-0,052	5,269	0,022	0,909	0,950	0,992
Shared Acquisition Experience	0,363	8,097	0,004	1,120	1,437	1,846
Constant	-1,685	33,469	0,000		0,185	
Chi-square	88,552					
-2 Log Likelihood	265,570					
R^2 (Cox & Snell)	0,284					
R^2 (Nagelkerke)	0,385					
Overall prediction percentage	77.7%					
H-L Goodness of fit significance	0.597					

3. Model 6 – The Combined Effect of GQ and GQD

Logistic Regression Estimates of the Likelihood of Partial Acquisitions

				95% Confidence Interval		
Variable	**B**	**Wald**	**Sig.**	**Lower**	**Exp(b)**	**Upper**
Governance Quality Distance	0,400	12,092	0,001	1,191	1,491	1,868
Governance Quality	-0,628	10,180	0,001	0,363	0,534	0,785
Full Acquisition Experience	-0,049	4,732	0,030	0,910	0,952	0,995
Shared Acquisition Experience	0,361	8,045	0,005	1,118	1,435	1,843
Constant	-0,913	6,128	0,013		0,401	
Chi-square	99,020					
-2 Log Likelihood	255,101					
R^2 (Cox & Snell)	0,312					
R^2 (Nagelkerke)	0,423					
Overall prediction percentage	79,6%					
H-L Goodness of fit significance	0.076					

4. Model 7 – Asymmetric Governance Quality Distance

Logistic Regression Estimates of the Likelihood of Partial Acquisitions

				95% Confidence Interval		
Variable	**B**	**Wald**	**Sig.**	**Lower**	**Exp(b)**	**Upper**
Asymmetric Governance Q. Distance	-0,113	4,006	0,045	0,799	0,893	0,998
Full Acquisition Experience	-0,064	7,422	0,006	0,896	0,938	0,982
Shared Acquisition Experience	0,400	9,962	0,002	1,164	1,491	1,912
Constant	-0,551	12,662	0,000		0,577	
Chi-square	68,426					
-2 Log Likelihood	285,695					
R^2 (Cox & Snell)	0,228					
R^2 (Nagelkerke)	0, 309					
Overall prediction percentage	75,5%					
H-L Goodness of fit significance	0.010					

5. Model 8 – Governance Quality

Logistic Regression Estimates of the Likelihood of Partial Acquisitions

				95% Confidence Interval		
Variable	**B**	**Wald**	**Sig.**	**Lower**	**Exp(b)**	**Upper**
Governance Quality	-0,822	20,297	0,000	0,308	0,440	0,629
Full Acquisition Experience	-0,053	5,554	0,018	0,908	0,949	0,991
Shared Acquisition Experience	0,401	10,045	0,002	1,165	1,493	1,912
Constant	0,114	0,271	0,603		1,121	
Chi-square	86,503					
-2 Log Likelihood	267,619					
R^2 (Cox & Snell)	0,279					
R^2 (Nagelkerke)	0,378					
Overall prediction percentage	75,8%					
H-L Goodness of fit significance	0.009					

Appendix 7 - Additional Analyses

A number of additional analyses can be made to support the findings of section 4,2. The results of these analyses are presented in the following sections.

Model 7 – Asymmetric Governance Quality Distance

The asymmetric governance quality distance is excluded from model6 by the method of backward likelihood ratio. To make sure the exclusion is justified, a model is created in which the asymmetric governance quality distance is included instead of its no-sign counterpart. Appendix 7 – Table 1shows the statistical results for this model (see Appendix 5 for full table). The variable is barely significant at the 0.05 significance level and, as opposed to GQD, is negatively related to the depended variable. The difference in sign for the regression coefficient is due to the allowance for negative values for this variable.

Despite the significance of this variable, model7 is less useful than model5. Firstly, the chi-square and log likelihood are worse off. Secondly, this model has not as strong predictive capacity as model5 does. Model7 is able to predict 75,5% of the observations, which is 2,2% lower than model5. Finally and most importantly, model7 is experiencing a lack of fit. The H-L goodness of fit test is significant at the 0,01 level, meaning that the predictions and observations are significantly different. Such lack of fit is reason enough to actually reject the whole model.

Appendix 7 – Table 1

Variable	Model 4	Model 5	Model 6	Model 7	Model 8
Governance Quality Distance		0,507***	0,400***		
Asemmetric Governance Q. Distance		exl.		-0,113*	
Governance Quality			-0,628***		-0,822***
Full Acquisition Exp	-0,062*	-0,052*	-0,049*	-0,064*	-0,053*
Shared Acquisition Exp	0,410***	0,363***	0,361*	0,400*	0,401*
Constant	-0,571	-1,685	-0,913	-0,551	0,114
Chi-square	64,358	88,552	99,020	68,426	86,503
-2 Log Likelihood	289,763	265,570	255,101	285,695	267,619
R^2 (Cox & Snell)	0,216	0,284	0,312	0,228	0,279
R^2 (Nagelkerke)	0,292	0,385	0,423	0, 309	0,378
Overall prediction percentage	72,8%	77.7%	79,6%	75,5%	75,8%
H-L Goodness of fit significance	0,156	0.597	0.076	0.010	0.009

*p < 0.05
***p < 0.01

Model 8 – Governance Quality

To make sure that model6 is actually the most useful and well fitted model, it must also be compared to a model that only contains Governance Quality as an independent variable. Model8 facilitates such a comparison and its statistical results can be found in Appendix 7 – Table 1 (see Appendix 5 for full table). The regression coefficient is significantly positive and in accordance with

model6. In other words, combining the two variables does not alter the effect of GQ on the acquisition ownership degree.

Overall, model8 significantly increases the overall correct predictions when compared to the intercept model. Nevertheless, when compared to model6 it seems to be underperforming. It has a lower chi-squared and a larger log likelihood. Most importantly, the model is not well fitted since it has a significant H-L Goodness-of-fit. Finally, the overall prediction of model8 is 3,8% lower than that of model6.

Once again it can be concluded that model 6, where the two variables are combined, is superior to a model that uses the variables separately.

Model 9 – Interaction Effect

Model6 tested the joint inclusion of GQ and the dominant GQD variable. Nonetheless, the analysis would be incomplete without the examination of interaction effects. Appendix 7 – Table 2 shows the results for a model that tests the interaction between Governance Quality and Governance Quality Distance (see Appendix 5 for full table). The interaction seems to be significant at the 0.05 level and has a positive effect on the ownership degree of cross-border acquisitions.

Despite the finding of significance for the interaction term, the interaction model has its limitations. Firstly, the H-L Goodness of fit test is significant, which implies the model is not well fitted, thus can be rejected. According to scholars, models that experience a lack of fit can be rejected for that reason. Secondly, when the interaction model is compared to model6, then it becomes clear that the latter model is superior. This can be concluded by the higher chi-square of model6 and its lower log likelihood. Lastly, the overall prediction of this model is lower than the one of model6, which is another reason for concluding the superiority of the latter model.

Appendix 7 – Table 2
Logistic Regression Estimates of the Likelihood of Partial Acquisitions

				95% Confidence Interval		
Variable	**B**	**Wald**	**Sig.**	**Lower**	**Exp(b)**	**Upper**
Governance Quality Distance by Governance Quality	-0,130	4,668	0,031	0,780	0,878	0,988
Full Acquisition Experience	-0,063	7,242	0,007	0,898	0,939	0,983
Shared Acquisition Experience	0,419	11,009	0,001	1,187	1,520	1,946
Constant	-0,398	5,360	0,021		0,672	
Chi-square	69,253					
-2 Log Likelihood	284,886					
R^2 (Cox & Snell)	0,230					
R^2 (Nagelkerke)	0,312					
Overall prediction percentage	75,1%					
H-L Goodness of fit significance	0.001					

*p < 0.05
***p < 0.01

Individual Dimensions

This section analyzes the effect of the individual dimensions that comprise the governance quality and governance quality distance variable. The results of the tests are depicted in Appendix 7 – Table 3. Each one of the models includes one dimension, which in turn is tested along with the control variables on the acquisition ownership degree. All dimensions are found to have a significantly positive effect at the 0,01 significance level.

In their study, Slangen and van Tulder (2009) were able to identify the most influential dimensions. Those were government effectiveness, regulatory quality and control of corruption, followed by voice and accountability and control of corruption. This classification was based on the impact of the regression coefficient, with higher values indicating a larger impact. When a similar approach is used for this study, the results are different. The three most influential dimensions are voice and accountability, regulatory quality and political stability, followed by government effectiveness, rule of law and control of corruption.

Appendix 7 – Table 3

Variables	Model 4	Model 10	Model 11	Model 12	Model 13	Model 14	Model 15
Voice & Accountability		-1,004***					
Political Stability			-0,766***				
Government Effectiveness				-0,731***			
Regulatory Quality					-0,836***		
Rule of Law						-0,649***	
Control of Corruption							-0,570***
Full Acquisition Exp.	-0,062*	-0,048*	-0,060*	-0,051*	-0,054*	-0,054*	-0,054*
Shared Acquisition Exp.	0,410***	0,425***	0,390*	0,406***	0,392*	0,400*	0,396*
Constant	0,571	0,176	-0,294	0,232	0,218	0,000	-0,008
Chi-square	64,358	96,040	79,878	84,992	85,146	82,003	80,838
-2 Log Likelihood	289,763	258,082	274,244	269,129	268,975	272,118	273,283
R^2 (Cox & Snell)	0,216	0,304	0,260	0,274	0,275	0,266	0,263
R^2 (Nagelkerke)	0,292	0,412	0,353	0,372	0,373	0,361	0,357
Overall prediction percentage	72,8%	77,7%	74,3%	76,2%	77,0%	77,7%	77,4%
H-L Goodness of fit significance	0,156	0,041*	0,005***	0,183	0,008***	0,353	0,083

*p < 0.05
***p < 0.01

Unfortunately, the study of Slangen and van Tulder (2009) has no reference to the overall prediction percentages and the goodness of fit. For example, the order of dimensions would change if the goodness of fit test is taken into consideration. In particular, only, government effectiveness, rule of law and control of corruption have a well fitted model. The models that include voice and accountability, political stability, regulatory quality are experiencing a lack of fit.

Finally, the order would change again when the overall prediction percentage is considered. The best prediction scores are derived from voice and accountability, rule of law and control of corruption.

When all factors are taken into account, it seems that the weakest model is that of political stability (model11). This finding supports Slangen and van Tulder's (2009) study in which the least fitting model was also that of political stability. In accordance with these scholars, it seems that the other dimensions have a stronger effect on the share of equity sought. As they have argued, these measures of the quality of the current government policies and actions are more likely to be considered by MNE executives in foreign entry mode decisions.