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GREENFIELD INVESTMENTS OR ACQUISITIONS? THE INFLUENCE OF DISTANCE ON EMERGING-MARKET MULTINATIONALS

Abstract

Purpose - In recent years, emerging-market multinationals (EMMs) are receiving significant attention in the international business literature. They represent a challenge for the conventional wisdom, mainly derived from the behavior of developed-country multinationals (MNEs). The aim of this paper is to analyze how different cross-national distances, namely cultural, administrative, geographic and economic, may affect establishment mode choice by Indian MNEs.

Design/methodology/approach - Data are collected from 328 outward foreign direct investments carried out by Indian MNEs in 73 countries from 1991 to 2014. A binomial logistic regression analysis is used to test the hypotheses.

Findings - The results show that cultural and administrative distances negatively affect the choice of an acquisition. Moreover, firm size, acquisition experience, host country experience, industry, belonging to the G20 alliance and being a state-owned enterprise also influence establishment mode choice.

Originality/value – This is one of the first studies that investigate the relationship between distances and establishment mode choice by Indian MNEs. The findings suggest that they follow a different behavioral pattern among EMMs, since their internationalization decisions are closer to those of developed-country MNEs.

Keywords – Acquisitions, greenfield investments, emerging markets, institutional perspective.

Paper type – Research paper

Introduction

Over the past decade, emerging-market multinationals (EMMs) are becoming outstanding global players and drivers of global growth. Emerging economies are a new context with their own characteristics. Firstly, they configure their resources differently from developed countries. For example, firms from developing countries do not usually have the same ownership advantages as large multinationals (MNEs) from developed economies (Cuervo-Cazurra, 2007; Rienda et al., 2013). Secondly, they may represent a challenge for extant outward foreign direct investment (OFDI) literature, mainly derived from developed-country MNEs (Cuervo-Cazurra, 2012).

Foreign-market entry mode choice represents an important research topic for MNEs because this may be an irreversible decision and because there are multiple variables that influence that choice (Agarwal & Ramaswami, 1992). Entry modes involve two decisions: ownership mode, i.e., the choice between wholly-owned subsidiaries and joint-ventures; and establishment mode, i.e., the choice between greendfield investments and acquisitions (Barkema & Vermeulen, 1998).

Prior research highlighted several firm-specific factors as determinants of establishment mode choice (Arslan & Larimo, 2011; Barkema & Vermeulen, 1998; Kogut & Singh, 1988; Slangen, 2011). However, the simultaneous influence of home- and host country- specific factors has received less attention. In addition, scholars gave more attention to developed-country MNEs, whereas only a limited number of papers analyzed this choice in the case of EMMs (Meyer et al., 2014; Rienda et al., 2013).

This study seeks to provide new insights into the home-host country factors influencing establishment mode choice. Some prior studies examined the role of distance factors, reporting non-conclusive results about their influence on firms' selection of international markets (Dow & Karunaratna, 2006; Ghemawat, 2001; Malhotra et al., 2009) or

entry modes (Demirbag et al., 2007; Ionascu et al., 2004; Kogut & Singh, 1988; Tsang & Yip, 2007). Nevertheless, the relationship between distance and cross-border acquisitions is relatively under-explored. Thus, our study aims to investigate the influence of several types of distance factors, such as cultural, administrative, geographic, and economic distances (CAGE) on establishment mode choice (Ghemawat, 2001). The CAGE framework is widely used in the international business (IB) literature, but only a few studies used it for analyzing EMMs (Buckley et al., 2017; Malhotra et al., 2009).

In addition, by focusing on a single emerging market like India, we can explore some decisions regarding the internationalization process of Indian MNEs allowing us to compare the results obtained here with those reported in previous research. India is an emerging market with a different pattern compared with their Asian neighbors (Chen, 2012). The findings will help us to know if the behavior of Indian MNEs is closer to that of other EMMs or, on the contrary, if they behave differently. India is an interesting context as an emerging market with two different sides: several developed-country characteristics, derived from its historical links with Western countries, and strategic needs, typical of emerging markets as international latecomers.

Next, we set out the literature review and hypotheses development. Then, we describe the methodology used, before reporting the empirical results. A discussion of the main findings and suggestions for future lines of research are provided in the next section. Finally, we summarize the main conclusions of our study.

Theory and hypotheses

We found a wide variety of IB studies addressing the role of "distance" from different viewpoints. For instance, Johanson and Vahlne (1977) paid attention to differences in language, education, business practices, culture, and industrial development. Kogut and Singh

(1988) measured cultural distance using Hoftede's (1980) cultural dimensions. Barkema et al. (1996) analyzed linguistic, institutional, cultural, and political factors. Finally, Berry et al. (2010) proposed a set of multidimensional measures.

Cultural, administrative, geographic and economic differences between countries influence internationalization decisions, strategies and outcomes (Berry et al., 2010; Brouthers, 2002; Ionascu et al., 2004; Johanson & Vahlne, 1977, 1990). Nevertheless, the influence of each kind of distance depends on the home country of the MNE and little is known about EMMs (Dikova & Brouthers, 2016).

Moreover, MNEs need to adjust their strategies to the requirements of foreign institutions, which may be different from those of their home market (Arslan & Larimo, 2011; Peng et al., 2008). Institutional factors are particularly important in emerging economies, since institutional weakness increases transaction costs and the risk level that firms must take on (Meyer & Peng, 2005). Drawing on an institutional perspective, next we propose several hypotheses regarding the influence of the above-mentioned distances between home and host countries on establishment mode choice by Indian MNEs.

Cultural distance

Cultural distance is a very important factor influencing decisions in international markets (Barkema et al., 1996; Demirbag et al., 2007). Several scholars refer to it as informal institutional distance (Arslan & Larimo, 2011). Cultural distance indicates differences in terms of culture, economic systems, and business practices between home and host countries (Kogut & Singh, 1988; Hofstede, 1989). In different cultures, executives perceive high uncertainty (Gatignon & Anderson, 1988).

Cultural differences amplify the problems of implementing an acquisition (Weber et al., 1996) or the time and cost involved in overcoming conflicts (Malhotra et al., 2009). In such situation, the costs of interpreting information flows between firms from different

countries and the risk of misinterpretation are higher. Thus, firms may be more successful in replicating their capabilities using greenfield subsidiaries (Barkema & Vermeulen, 1998). As a result, past research found a negative relationship between cultural distance and the use of acquisitions when entering a host country (Agarwal & Rasmawami, 1992; Arslan & Larimo, 2011; Barkema & Vermeulen, 1998; Kogut & Singh, 1988).

In the case of EMMs, although empirical evidence is still scarce, similar results were found (Aybar & Ficici, 2009; Buckley & Munjal, 2017). EMMs prefer acquisitions in countries that are closer in terms of distance to their home country (Malhotra et al., 2009). Nevertheless, other studies report a preference for acquisitions in cultural and developed distant countries with the aim to acquire strategic resources (Mathews, 2002).

As for Indian MNEs, past research highlights the importance of cultural distance in their internationalization decisions (Buckley et al., 2012). India is close to developed countries such as the UK or the US, due to the language and other cultural links derived from past colonial ties. For that reason, the perceived cultural distance by Indian firms may be lower in these markets, leading them to make decisions that are similar to those of Western MNEs entering other developed markets. Thus, we propose:

Hypothesis 1: Indian MNEs prefer to enter the host country through acquisitions when there is a lower cultural distance between India and the host country.

Administrative distance

Administrative distance, considered as a political distance by Ghemawat (2001), is an important dimension of the institutional environment, particularly in the early stages until the company is set up and adapted to the new location's rules (Demirbag et al., 2007). As for developed-country MNEs, administrative distance is larger when they enter emerging countries, which tend to have higher levels of risk because of inefficient markets and potential corruption problems (Estrin, 2002). Furthermore, these markets have insufficient protection of

ownership rights, due to inefficient financial systems, restrictive regulations and high barriers to investment and commerce (Brouthers, 2002). While some MNEs may be able to take advantage of market imperfections, they also have to deal with the excessive costs of uncertainty associated with these countries (Aybar & Ficici, 2009).

Firms that decide to set up in a high-risk country will prefer to preserve their resources by opting for internal development, particularly because potential opportunism problems lead them to maintain control of the firm when faced with such a situation (Agarwal & Ramaswami, 1992). For this reason, uncertainty due to administrative distance may be reduced with the option of greenfield investment as an entry mode into a high-risk country (Arslan & Larimo, 2011; Kogut & Singh, 1988).

Conversely, administrative distance is generally higher for EMMs when they invest in developed economies. Drawing on an institutional perspective, prior studies suggest that in other emerging markets, the inherent political risk does not affect EMMs in a conventional way (Duanmu & Guney, 2009; Quer et al., 2012).

However, compared to other emerging economies, India shows differences in bureaucratic patterns due to colonial ties, language or legal system (Berry et al., 2010; Ghemawat, 2001). In particular, colonial ties are a potential antecedent to factors such as differences in languages and political systems. Differences in languages or legal systems between markets tend to increase both the costs and the risks of a transaction (Dow & Karunaratna, 2006). In the case of Indian MNEs, unlike other EMMs, when host countries share some characteristics such as language or colonial ties, they may perceive less risk. For this reason, the perceived administrative distance will be lower, and the option of acquisitions would be desirable. Hence, we propose:

Hypothesis 2: Indian MNEs prefer to enter the host country through acquisitions when the administrative distance between India and the host country is lower.

Geographic distance

In some cases, countries with a low cultural distance are not located geographically close to each other, which make it possible to observe separately the impact of these two factors (Ojala & Tyrväinen, 2007). Prior studies report that geographic proximity facilitates resource flows, influencing location decisions for venture capital (Sorenson & Stuart, 2001), financial investment (Coval & Moskowitz, 1999), and business units (Audia et al., 2001). Geographic distance increases the costs of verbal communication between MNE's headquarters and subsidiaries (Slangen, 2011).

More precisely, compared to greenfield investments, the employees of acquired subsidiaries will generally be less receptive to knowledge coming from their MNE parent and less willing to share their own knowledge (Gupta & Govindarajan, 2000). Thus, similarly to cultural distance, when geographic distance is higher, MNEs will probably prefer greenfield investments as the establishment mode (Slangen, 2011).

As for EMMs, it has been argued that the greater the geographic distance between two countries the harder it will be to acquire a local firm (Malhotra et al., 2009). We might also expect a similar relationship between geographic distance and greenfield investments. Nevertheless, from an institutional viewpoint, India does not have traditionally close trading links with its near Asian neighbors due to political differences and lack of economic integration within South Asian countries (Buckley et al., 2012).

Moreover, as we argued when developing the former two hypotheses, the use of the English language in India and the historical links with geographically distant countries such as the UK or the US are additional factors that need to be considered. For this reason, the conventional hypothesis may not apply in the case of Indian MNEs. This leads us to propose:

Hypothesis 3: Geographic distance is not a determining factor of establishment mode choice by Indian MNEs.

Economic distance

Although economic distance has not received significant attention in prior research, some studies found that large economic distance between the home and the host country discourages foreign market entry (Ghemawat, 2001; Malhotra et al., 2009). Furthermore, economic distance may also affect establishment mode choice. Prior research suggests that developed countries carry out most of their cross-border activities in other developed countries (Malhotra et al., 2009). On the other hand, developed-country MNEs could exploit their advantages entering emerging markets and replicating the same business model there.

EMMs, as latecomers, have to accelerate their internationalization pace with the aim of accessing resources and capabilities that are not available at home (Mathews, 2002). In other words, EMMs try to overcome their latecomer disadvantages through aggressive and risk-taking acquisitions. Thus, they prefer to acquire other firms in countries that have different economic structures from their home country (Malhotra et al., 2009). Therefore, we expect that Indian MNEs will be less able to gain competitive advantage relative to local firms or to acquire desirable strategic assets in other emerging economies, i.e., in countries with less economic distance. In these markets, it is easier to transfer business practices through greenfield subsidiaries (Tsang & Yip, 2007). As a result, we propose:

Hypothesis 4: Indian MNEs prefer to enter the host country through acquisitions when the economic distance between India and the host country is higher.

Methodology

Sample

Our unit of analysis is the OFDI made by each Indian MNE in each host market. There are several reasons for choosing this empirical setting. First, India is characterized by its economic potential, as a second developing power after China. The opening up of its

economy started in 1991 through a series of measures promoting liberalization. Second, there has been a rapid expansion of India's OFDI since the 1990s. As a result, an increasing number of Indian companies are aggressively following the strategy of overseas acquisition in order to access foreign markets or to acquire existing world-class brands (Buckley & Munjal, 2017; Rienda et al., 2011). The acquisitions of US Novelis by Hindalco Industries or British Jaguar-Land Rover by Tata Motors are some outstanding examples. In addition, we focus on large corporations, excluding small- and medium-sized firms whose internationalization strategies might be a priori constrained by the lack of financial and human resources, and could distort our analysis of establishment mode choice (Boellis et al., 2016).

Due to the difficulties to find complete data and information about cross-border acquisitions by Indian MNEs, we collected data from several sources. First, the starting point for the identification of relevant and largest Indian companies was the ranking Forbes 2000 for the year 2015. This is a comprehensive ranking of the world's biggest companies, measured by a composite of sales, profits, assets and market value. Not all large publicly traded firms from India are MNEs, but many leading Indian MNEs are large publicly traded firms (Cuervo-Cazurra et al., 2016). This ranking included 54 Indian companies, 47 of them being MNEs[1]. The next step was to gather the foreign entries carried out by each company. In order to reduce possible missing decisions about establishment abroad by the selected MNEs, an exhaustive work was done considering not only the corporate website of each company but also different secondary sources such as *Centre for Monitoring Indian Economy*, *Financial Times*, *Business Standard*, *Indian Express*, *Business Online India*, and *The Hindu Business Line*. We analyzed the news and events reported by each MNE in its corporate website and

[1] We have considered that a MNE is an enterprise that engages in OFDI and owns or, in some way, controls value added-activities in more than one country (Dunning & Lundan, 2008).

those reported by the above-mentioned sources. Finally, we obtained a dataset of 328 OFDIs carried out by Indian MNEs in 73 countries between 1991 and 2014.

Dependent variable

The dependent variable is the *establishment mode* chosen for each OFDI decision. We used a dummy variable that takes a value of 1 if the company made an acquisition, and a value of 0 if it established a greenfield subsidiary (Barkema & Vermeulen, 1998; Quer et al., 2017; Rienda et al., 2013).

Independent variables

Cultural distance. We measured the cultural distance between India and each host country using the methodology developed by Kogut and Singh (1988), based on Hofstede (1980), which established four dimensions of national culture: individualism, uncertainty avoidance, power distance, and masculinity/femininity. High values for this distance mean a greater cultural gap with India. This index has been widely used in prior research (Aybar & Ficici, 2009; Barkema & Vermeulen, 1998; Demirbag et al., 2007).

Administrative distance. We used two measures for this variable. First, administrative distance was measured using the political risk ratio provided by the International Country Risk Guide (Political Risk Services Group), which contains 22 variables for measuring risk grouped into three categories (political, financial and economic). We took the absolute difference in scores of political risk ratio between India and each target country. Second, we considered issues such as common language, legal system or colonial ties if the host country is a member of the Commonwealth like India. We used a dummy variable to indicate if each entry was made in a Commonwealth country. This variable takes the value 1 if the host country is a member of the Commonwealth and 0 otherwise (Buckley et al., 2012; Dow & Karunaratna, 2006).

Geographic distance. Using the Geobytes Database, we calculated geographic distance as the actual distance in kilometers between the capital cities of India and each host country, (Buckley et al., 2012; Malhotra et al., 2009; Ojala & Tyrväinen, 2007). We used a logarithmic transformation in order to reduce potential distortions and improve the normality of the distribution (Ellis, 2011).

Economic distance. GDP per capita is the most commonly applied measure in IB research to assess countries' economic development and economic distance between countries (Dow & Karunaratna, 2006; Tsang & Yip, 2007). We measured economic distance as the absolute difference in GDP per capita between India and each target country in the year prior to entry, using a logarithmic transformation as in the previous variable (Buckley et al., 2012). We collected this information from the World Development Indicators of the World Bank.

Control variables

Firm size. Firm size is a significant factor influencing international operations (Caves, 1996). Thus, we controlled for the influence of firm size on establishment mode choice using firm employees as a measure (Williams & Grégoire, 2015), also with a logarithmic transformation to normalize the distribution.

Industry. Past research suggests that there may be industry differences in the preference for acquisitions as an establishment mode (Kogut & Singh, 1988). In the case of Indian MNEs, cross-border acquisitions are positively related to firm's technological resources (Buckley et al., 2012). Thus, we controlled for industry influence by focusing on technological intensity, using the OECD classification, based on the International Standard Industrial Classification (ISIC-revision 3). This variable has also been considered in other studies (Rienda et al., 2013). We created a variable with four categories: low-technology industries, medium-low technology industries, medium-high technology industries, and high technology industries.

International acquisition experience. International acquisition experience was measured using the number of previous acquisitions carried out by each company in the focal host country (Barkema & Vermeulen, 1998; Elango et al., 2013; Kogut & Singh, 1988). This information was obtained from firm's annual reports and from the news and events reported by the above-mentioned secondary sources, such as *Centre for Monitoring Indian Economy*, *Financial Times* and *Business Standard*.

Host country experience. Host country-specific experience was measured using the number of previous investments of each company in the focal host country (Barkema & Vermeulen, 1998; Kogut & Singh, 1988). This information was also obtained from firm's annual reports and from the news and events reported by the other secondary sources.

G20. Country alliances bring institutional convergence among member states reducing trade barriers and uncertainty (Buckley et al., 2017). We controlled for this factor by considering if the host country belongs to the G20 economic and political alliance. This variable takes the value 1 if the host country is a member of G20, and 0 otherwise (Buckley et al., 2012).

State-owned enterprise (SOE). The economic crisis of 1991 created resource constraints for India's SOEs (Choudhury & Khanna, 2014). Several SOEs were partially privatized (the government intended to reduce government ownership to 26% of equity) but we still found bigger state-owned Indian MNEs in several listed rankings. Thus, we controlled for state ownership by using a dummy variable: (1) if the investing firm is a SOE; (0) otherwise (Duanmu, 2012).

Results

To examine the relationship between the predictor variables and establishment mode choice, we employed a binomial logistic regression. The dependent variable represents the differential

probabilities of choosing one alternative (acquisitions) relative to another (greenfield investments).

Our analysis of correlations among variables indicated that there was no particular concern for multicollinearity. An examination of the variance inflation factor (VIF) values showed that all values ranged between 1.17 and 2.90, which are well below the standard cut-off level of 10 (Kutner et al., 2004). Table 1 shows descriptive statistics and bivariate correlations.

Insert Table 1

Table 2 summarizes the regression results. Model 1 includes only control variables. This model is significant (Chi-square=76.199, $p<0.001$) and the pseudo R^2 statistic is 0.207. In Model 2, we added the effects of the independent variables. This model is also significant (Chi-square=89.740, $p<0.001$), and the pseudo R^2 statistic is 0.270. We also report the odds ratio to assess effect sizes.

Insert Table 2

Hypothesis 1 proposed that Indian MNEs prefer acquisitions instead of greenfield investments when cultural distance between India and the host country is lower. Our results show a negative and significant impact of cultural distance on the probability of choosing an acquisition, thus supporting hypothesis 1. This suggests that Indian MNEs prefer to acquire a firm in countries that have a similar culture. This result is in line with previous findings on MNEs from developed countries (Agarwal & Rasmawami, 1992; Barkema & Vermeulen, 1998; Kogut & Singh, 1988). Following Li et al. (2018), we calculated the effect size of cultural distance. Since the odds ratio for this variable is lower than 1 in Model 2 (0.350), in order to facilitate the interpretation of effect size, we first calculated the inverse of this odds ratio (1/0.350) and later we multiplied it by the standard deviation of cultural distance (0.64),

giving a result of 1.8. This leads us to conclude that a standard deviation decrease in cultural distance would make the decision of acquisition 1.8 times more attractive.

Hypothesis 2 was also supported by our results. Thus, when administrative distance is lower, Indian MNEs prefer acquisitions as establishment mode choice. Our first proxy of administrative distance is based on differences in terms of political risk. As stated above, prior research reports that host country risk does not affect entry mode choice of EMMs in a conventional way (Duanmu & Guney, 2009; Quer et al, 2012). However, as our results show, Indian MNEs seem to follow a behavioral pattern more similar to that of developed-country MNEs (Rienda et al., 2013). We calculated the effect size of distance in terms of political risk as the standard deviation of this variable (7.46) multiplied by the inverse of the odds ratio (1/0.997). We can state that a standard deviation decrease in political risk would make decision of acquisitions in host country 7.5 times more attractive.

We obtained similar results with our second proxy of administrative distance: a host country belonging to the Commonwealth. India belongs to the Commonwealth of Nations, a political organization that aims to promote democracy, facilitate international negotiations between member countries and promote economic and social development. It plays a crucial role in policy, political, social and developmental aspects for member countries. This alliance of nations could facilitate international acquisitions through their ability to reduce the so-called liability of foreignness (Zaheer, 1995). We also calculated the effect size for this variable as the standard deviation (0.47) multiplied by the odds ratio (2.477). Thus, we can state that a standard deviation increase in the Commonwealth variable would make the decision of acquisition 1.2 times more attractive.

Hypothesis 3 is also supported, since our results show that geographical distance between India and the host country is not statistically significant when choosing acquisitions instead of greenfield investments. In this case, it is worth mentioning that India may be

considered close to some geographically distant countries such as the US and the UK, due to the proximity of the English language and the historic memory of India as a British colony (Buckley et al, 2012). This may contribute to reduce the importance of geographic distance when making establishment mode decisions in these destinations.

Hypothesis 4 was not supported. Thus, we cannot conclude that economic distance is a factor that influences decisions on establishment mode choice by Indian MNEs. Although few prior research papers focused on the relationship between economic distance and establishment mode choice, some of them found a preference for greenfield investments when economic distance is lower (Tsang & Yip, 2007). Economic distance considers cross-country differences in patterns of exchange, economic structure, market orientation, and market stability (Ghemawat, 2001; Miller & Parkhe, 2002). This dimension has not received as much attention as the others, maybe because it is not a key factor identified in institutional economics (Bae & Salomon, 2010). Due to insufficient consideration of economic distance in internationalization studies (Malhotra et al., 2009), and more precisely in establishment mode decisions, it would be necessary to increase the number of studies focusing on this kind of distance, using alternative measures of economic differences.

Finally, we performed several robustness checks with the aim to assess the sensitive of our findings (Lu & White, 2014). First, we excluded Infosys, the firm that accumulates the greatest number of investments covered by our sample. After removing OFDIs carried out by this company, we performed the regression analysis and the results were consistent with those reported in Table 2. Second, we also excluded OFDIs in the US and the UK, since both countries received the largest number of investments. As in the previous case, omitting these countries did not change the results of our initial analysis.

Discussion

Our study addresses the role of distances by focusing on India, a country with particular characteristics that differ from those of other emerging economies. By applying the CAGE distance framework, we obtained insights on how Indian MNEs make decisions about establishment mode. The findings of this study have several managerial implications. First, we obtain that managers of Indian MNEs assess the tradeoff between benefits and costs of acquisition vs. greenfield investments at different levels of cultural and administrative distance. Second, geographic and economic distances do not seem to affect that decision. Third, our results suggest that managers of Indian MNEs show a different behavioral pattern compared to that of managers of other EMMs. As stated above, historical and economic links with developed countries can be the underlying reasons for these differences.

In addition, our analysis includes both home-host country factors and industry- and firm-specific factors. Regarding home-host country factors, we report that Indian MNEs prefer acquisitions when there is a low cultural and administrative distance between India and the host country. In addition, belonging to the G20 alliance is a host country factor that seems to facilitate acquisitions. From and industry viewpoint, Indian MNEs prefer acquisitions if they belong to a high technology industry. Finally, at a firm level we have found that Indian MNEs prefer to acquire firms in host countries when they have extensive international acquisition experience and when they are SOEs. Conversely, a larger firm size and a greater host country experience lead Indian MNEs to prefer greenfield investments.

In our opinion, our paper makes several contributions to the study of the factors influencing decision-making of EMMs. First, some prior studies reported that firms from developing countries behave differently than their developed-country counterparts when making decisions abroad (Fortanier & Tulder, 2009; Quer et al., 2012). Nevertheless, our findings suggest that Indian MNEs follow a different behavioral pattern and, to some extent,

their internationalization decisions are closer to that of developed-country MNEs. This makes it necessary to do more studies analyzing the specific characteristics of particular emerging economies as home countries instead of considering emerging economies as a single entity.

Second, we examined the role of distance for a specific emerging country with significant linkages to Western countries. These characteristics may provide an interesting framework to study the similarities and differences between India and other emerging economies. The significant impact of the different distance factors suggests the need for a broader consideration of the role of distance on decisions about the internationalization process of Indian MNEs.

Despite these contributions, our study has several limitations that suggest potential future research directions. First, our empirical research is based on secondary data sources. We focused on Indian companies listed in Forbes 2000 ranking, thus analyzing only large firms. Further research could overcome this limitation by considering managerial perceptions and expanding the number of firms included in the analysis. Furthermore, this research could be extended by considering alternative measures of each distance factor, thus providing a better validation of the CAGE framework in the context of EMMs. Second, we only focused on establishment mode choice. This opens promising avenues for future research in order to analyze other decisions regarding the internationalization process of Indian MNEs. Furthermore, it would be interesting to analyze such similarities and differences on a country-by-country basis, both comparing the behavior of Indian MNEs with that of MNEs coming from other emerging markets as well as from developed ones. Finally, performance differences might be also addressed in order to provide useful tools for managers. Examining firm performance can bring new insights to our understanding of establishment mode choice and determine what factors lead to superior performance and what factors do not.

Conclusions

In conclusion, our study sheds light on EMMs research by empirically testing the influence of several types of distance factors, such as cultural, administrative, geographic, and economic distances (CAGE) on establishment mode choice. Whereas there is a large body of literature on international expansion through acquisitions by developed-country MNEs, this issue is relatively understudied in the case of EMMs. The focus on the Indian context enrich this framework because Indian MNEs present some particular characteristics close to those from their developed-country counterparts, due to the historical links, and also close to firms from other emerging markets, as international latecomers.

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Tables

Table 1
Descriptive statistics and correlations

	Mean	SD	1	2	3	4	5	6	7	8	9	10
1. Cultural distance	1.18	0.64										
2. Administrative distance (political risk)	9.51	7.46	.15*									
3. Administrative distance (Commonwealth)	0.34	0.47	-.12*	.05								
4. Geographic distance	3.79	0.24	-.75**	-.17**	.06							
5. Economic distance	4.06	0.63	-.32**	.52**	-.02	.23**						
6. Firm size	4.60	0.50	.05	-.00	-.08	.05**	-.04					
7. Industry	2.86	0.96	-.15**	.03	-.18**	.23**	.10	.45**				
8. International acquisition experience	2.30	3.01	-.10	-.06	-.05	.12*	.14*	-.13*	.12*			
9. Host country experience	6.05	7.01	-.09	.02	.08	.16**	.03	.40**	.18**	.05		
10. G20	0.61	0.48	-.37**	.02	-.24**	.47**	.21**	.07	.27**	.13*	.09	
11. SOE	0.41	0.49	.07	-.16**	.07	-.08	-.24**	.13*	-.33**	-.00	.15**	-.12*

N=328, * p<0.05, **p<0.01

Table 2
Logistic regression results (N=328)

Variables	Model 1	Model 2
Cultural distance		**-1.049****
		(0.527)
		[0.350]
Administrative distance (political risk)		**-0.003**†
		(0.002)
		[0.997]
Administrative distance (Commonwealth)		**0.907*****
		(0.331)
		[2.477]
Geographic distance		**-0.803**
		(1.012)
		[0.448]
Economic distance		**0.071**
		(0.300)
		[1.074]
Firm size	-1.332***	**-1.743*****
	(0.330)	(0.392)
	[0.264]	[0.175]
Industry	0.170	**0.343**†
	(0.168)	(0.198)
	[1.186]	[1.410]
International acquisition experience	0.197***	**0.162****
	(0.056)	(0.062)
	[1.217]	[1.176]
Host country experience	-0.099***	**-0.087*****
	(0.026)	(0.029)
	[0.906]	[0.916]
G20	0.842***	**0.822***
	(0.272)	(0.401)
	[2.320]	[2.274]
SOE	0.955***	**0.972***
	(0.316)	(0.362)
	[2.597]	[2.642]
Chi-square	76.199***	89.740***
Pseudo R^2	0.207	0.270

Robust standard errors in parentheses, odds ratio in square brackets.

†p<0.1, *p<0.05, **p<0.01, ***p<0.001