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Selective imitation of compatriot firms: Entry mode decisions of emerging market multinationals in cross-border acquisitions

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Abstract This research investigates imitation in cross-border acquisitions (CBAs) by emerging market multinationals (EMNCs) in terms of the equity share sought in such acquisitions. Earlier acquisitions by peer compatriots and by developed-market multinationals (DMNCs) are both models for imitation, but the former are more similar and potentially relevant. Analysis of 608 CBAs by Chinese firms between 1987 and 2008 supports the above argument. Further, it reveals that state-owned Chinese firms are less likely to imitate in general. Both state-owned and privately-owned Chinese acquirers are most likely to imitate privately-owned Chinese acquirers previously invested in the same environment. For state-owned Chinese acquirers, more frequent pursuit of a particular target share by earlier state-owned Chinese acquirers decreases rather than increases the likelihood of a later state-owned Chinese investors buying a similar share.

Keywords Imitation · Cross-border acquisitions · Ownership shares · State ownership · Emerging markets · China

Cross-border acquisitions (CBAs) have become an important form of outward foreign direct investment (OFDI) by emerging market multinationals (EMNCs) pursuing

Methodological area: Quantitative

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overseas markets, technology, natural resources, or other strategic assets (Aybar & Ficici, 2009; Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010; Li & Xie, 2013). Due to their latecomer disadvantages, those EMNCs suffer not only the liability of foreignness, but also competitive weakness in the global context (Luo & Tung, 2007; Xie & Li, 2013). They face great uncertainty when making strategic CBA decisions, especially when they seek majority ownership in an overseas acquisition (Cui & Jiang, 2012). Institution theorists have long contended that in order to cope with uncertainty, organizations are tempted to imitate the practices that are adopted most frequently, or by firms with certain traits (Haunschild & Miner, 1997; Henisz & Delios, 2001; Li, Yang, & Yue, 2007; Li & Yao, 2010). Scholars have found empirical evidence of mimicking in entry mode decisions not only among multinational corporations (MNCs) from developed economies (Chan & Makino, 2007; Lu, 2002; Oehme & Bort, 2015), newly-industrialized countries (Guillén, 2002, 2003), but also among those from emerging economies (Ang, Benischke, & Doh, 2015).

However, those prior studies have had several limitations. First, while it has been taken for granted that MNCs from better-developed countries tend to imitate their compatriots, very few empirical studies have tested the salience of reference groups in the context of outward FDI from emerging economies. Then, scholars have examined differences among organizations in their tendency to imitate others (Henisz & Delios, 2001; Hsu & Hannan, 2005; Phillips & Zuckerman, 2001) and to be imitated by others (Kuilman & Li, 2009; McKendrick, Jaffee, Carroll, & Khessina, 2003; Rao, Monin, & Durand, 2003), but paid little attention to such differences caused by different types of ownership. Firms from the same home country with different types of ownership may vary in their propensity to imitate and their likelihood of being imitated.

We design this study to address these gaps by examining the ownership-based entry mode choices of EMNCs conducting CBAs overseas. Their high visibility and similarity suggest that home country peers should form a salient reference group for such EMNCs. High-status developed-market multinationals (DMNCs) make another plausible reference group for imitation. By imitating the practices frequently adopted by peer compatriots investing in the same environment, firms may gain legitimacy not only in the host country but in the home country as well. So both peer compatriots and DMNCs may be models for imitation, but EMNCs are more likely to imitate the previous ownership-based entry mode decisions of their compatriots than those of DMNCs. Further, we argue that EMNCs tend to imitate peer compatriots with the same type of ownership. State-owned EMNCs tend to face weak legitimacy in host countries (Meyer, Ding, Li, & Zhang, 2014), serious agency problems (Megginson, 2005) and the need to carry out non-economic obligations (Lin, Ma, & Su, 2009; Zheng & Chen, 2009). This may make them less subject to imitation and at the same time less likely to imitate their state-owned peers.

The results of the data analysis on 608 CBAs made by Chinese firms during 1987–2008 support most of these arguments. But prior majority-ownership CBAs made by state-owned Chinese acquirers actually decrease rather than increase the likelihood that a later state-owned Chinese acquirer will buy majority ownership in its CBAs.

These findings extend scholarly work on inter-dependence in entry mode choices (Hennart & Slangen, 2015). This study's institutional perspective highlighted the interplay between mimetic pressures and regulatory or normative pressures caused by

the different institutional implications of state ownership in the home and host countries. State-owned firms are highly legitimate in China, but their legitimacy is rather weak in many host countries. In response, later state-owned entrants tend not to imitate the previous entry mode decisions of state-owned compatriots. Another contribution of this paper is the data it presents on the interesting but less-studied phenomenon of OFDI from emerging economies (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Lau & Bruton, 2008; Li, Li, & Wang, 2016; Morck, Yeung, & Zhao, 2008). The study serves as a response to the call for studies that investigate the influence of home country institutions on EMNCs' commitment decisions in overseas investment (Meyer & Thaijongrak, 2013).

Theoretical background and hypotheses

Inter-organizational imitation

In the past three decades, management scholars have increasingly paid attention to processes through which individual organizations are influenced by other organizations (DiMaggio & Powell, 1983; Hannan & Freeman, 1977; Pfeffer & Salancik, 1978). One such process is inter-organizational imitation, which occurs when one or more organizations' adoption of a strategy increases the likelihood of that strategy being adopted by other organizations (Haunschild & Miner, 1997). The early theorists devoted a lot of effort to investigating the motivations underlying this process, and argued that organizations face coercive, cognitive, and normative pressures that push them to conform to others' practices. By conforming, the imitators are more likely to enjoy either social benefits such as legitimacy or technical benefits in terms of economic efficiency, and sometimes both (DiMaggio & Powell, 1983; Kennedy & Fiss, 2009; Levinthal & March, 1993; Rogers, 1995; Westphal, Gulati, & Shortell, 1997). If many peer organizations adopt a type of action, it becomes a rule of thumb (Zucker, 1977) and conveys legitimacy on its subsequent adopters. Furthermore, organizations look for market signals from their peers that a certain action is worth taking. The signals reduce uncertainty involved in the action, and generate rational bandwagons for economic purpose (Abrahamson & Rosenkopf, 1993; Haunschild & Miner, 1997).

More recent research on inter-organizational imitation has shifted its attention to the factors that lead to differentiated imitation. It has been discovered that organizations that perceive greater uncertainty (Haunschild & Miner, 1997), have less experience (Henisz & Delios, 2001) and have lower status (Hsu & Hannan, 2005; Phillips & Zuckerman, 2001) are more likely to imitate others' behavior. Organizations with higher status (Rao et al., 2003), a more focused identity (McKendrick et al., 2003), a higher grade of membership in their business community (Kuilman & Li, 2009), whose actions are easily observed and/or whose situation is similar to that of potential imitators (Greve, 1998, 2000) are more likely to be imitated by other organizations.

Entry mode imitation among EMNCs: Compatriots versus DMNCs

A CBA invariably involves a high level of uncertainty due to the liability of foreignness of the investors (Hymer, 1976; Zaheer, 1995). One important decision is the equity

share the foreign investors purchase in the overseas target. Different choices carry different inherent benefits and risks (Dikova & van Witteloostuijn, 2007), but the risks tend to be greater for EMNCs because of a relative lack of global experience, managerial competence and professional expertise (Luo & Tung, 2007). And EMNCs are also likely to suffer lower status because they are often associated, with or without justification, with negative traits such as poor corporate governance and lack of transparency (Zhou, 2010). EMNCs should therefore have a stronger tendency to imitating others when making CBA entry mode decisions (Haunschild & Miner, 1997; Henisz & Delios, 2001; Phillips & Zuckerman, 2001).

What is less well understood is what reference groups they consider when making entry mode choices. Firms tend to imitate other firms whose actions are easily observed and/or whose situations are similar to their own (Greve, 1998, 2000), so previous empirical research on imitative entry mode choices by DMNCs has generally considered peer compatriots investing in the same host country or industry as the most likely reference group (Chan & Makino, 2007; Li & Yao, 2010; Lu, 2002; Yiu & Makino, 2002). They tend to have high status (Rao et al., 2003), high grade of membership in the industry (Kuilman & Li, 2009), high visibility, and reasonably good similarity (Greve, 1998, 2000). But in the case of EMNCs, their peer compatriots have high visibility and similarity, but usually low status compared with DMNCs.

Many such investors may have been strictly circumscribed inside their domestic market for decades. They may have had little chance to accumulate first-hand knowledge about foreign firms. Due to weak or even censored domestic media, aspiring EMNCs often have very limited access to information about business abroad and few network connections. They perforce find each other more observable than foreign firms.

When an EMNC considers investing in another country it must do some homework about the target nation. That makes the compatriot firms that have previously invested in the same target nation very important models for observation. It is often simply difficult to find acquirers from any other country comparable to their own. The firm may have developed in an emerging economy where the government is ubiquitous and a vital source of various resources for every enterprise. It is also likely to be the only regulator (Khanna, 2009). Peers that have grown up in that same system will of course tend to resemble each other in many ways (DiMaggio & Powell, 1983). That similarity too encourages EMNCs to imitate the previous entry mode decisions of peer compatriots.

Hypothesis 1 The more frequently an ownership mode has previously been selected by peer compatriots in a host environment, the greater an EMNC's propensity to use that same ownership mode in entering that environment.

Of course, DMNCs may constitute another salient reference group. DMNCs make more than 80 % of the CBAs each year by value (World Investment Report, 2008). With their rich internationalization experience and competitive advantages, DMNCs tend to enjoy high status and legitimacy. They are usually considered as successful, and they attract imitators who would like to be successful as well. An EMNC may tend to believe that a decision made by DMNCs is likely to have a positive outcome if imitated (Haunschild & Miner, 1997; Lu, 2002).

Hypothesis 2 The more frequently an ownership mode has been adopted by MNCs from developed economies in an environment, the greater an EMNC's propensity to use that same ownership mode in entering that environment.

MNCs reflect and respond to their home environments (Chandler, 1977; Gammeltoft, Pradhan, & Goldstein, 2010; Vernon, 1966). Home country factors tend to influence their motives, structures, strategies and performance (Gammeltoft et al., 2010; Vernon, 1966). In the context of a CBA, EMNCs face institutional pressures not only from host country institutions, but also from back home. Legitimacy in the host country reduces the liability of foreignness, but legitimacy at home may bring access to resources and support from the parent and home country government (Lu & Xu, 2006; Meyer et al., 2014). Mimicking peer compatriots in investing in a host country brings legitimacy not only there, also at home, as the home country audience is usually only informed about what their firms are doing overseas. In addition, extensive evidence shows that the systematic differences between DMNCs and EMNCs (Guillén & Garcia-Canal, 2009; Luo & Tung, 2007; Meyer & Thaijongrak, 2013) make the formers' practices less relevant for the latter's decision-making. All of this makes EMNCs more likely to imitate their compatriots than any DMNC in choosing an ownership mode.

Hypothesis 3 The relationship proposed in H1 is stronger than that proposed in H2.

State-owned versus non-state-owned compatriot firms

In many emerging economies gradual reform has led to a segmentation of institutions where state-owned firms and private firms have different levels and types of resources, incentive schemes, and internal structures. State-owned enterprises (SOEs) enjoy social and political resources under central planning; private sector firms thrive with their superior economic incentives in market oriented systems. When EMNCs make acquisitions abroad, they may imitate the entry mode choices of either type of firm, but this may make compatriot firms with a similar ownership structures a particularly relevant reference group.

Hypothesis 4 The more frequently an ownership mode has been adopted by state-owned compatriot firms in an environment, the greater the likelihood that a state-owned EMNC will use that same mode in an acquisition there.

Hypothesis 5 The more frequently an ownership mode has been adopted by non-state-owned compatriot firms in an environment, the greater the likelihood that a non-state-owned EMNC will use that same ownership mode in an acquisition there.

All the same, state-owned firms may have lower tendency to imitate than privately-owned ones. In the first place, state-ownership tends to deliver less legitimacy in many host countries and indeed may be a liability rather than a benefit abroad. The host country, concerned perhaps about fair trade or national security, may scrutinize acquisitions by SOEs more closely and with greater suspicion (Cui & Jiang, 2010, 2012). In the US, for example, Section 337 of the Tariff Act mandates the Interagency Trade Enforcement Center to conduct due

diligence on potential unfair trade issues due to CBAs. Access to state-controlled resources significantly increases the likelihood of being investigated and potentially facing a veto. The Committee on Foreign Investment in the US has terminated several deals initiated by foreign acquirers with an SOE background on national security grounds (Heinemann, 2012; Wu, Hoon, & Zhang, 2011). So SOEs may find themselves with weaker legitimacy than other emerging market firms and facing more resistance in host countries (Meyer et al., 2014). Successful SOE entrants thus tend to generate less legitimacy spillovers to late SOE entrants, and are less likely to be imitated by compatriot SOEs in their later acquisitions.

Another reason why SOEs may be less useful models for later SOE entrants is that they may be known to such compatriots as suffering from serious agency problems or the burden of non-economic obligations. Later entrants may consider such firms' choices of little relevance. Agency problems arise when cooperating parties have different goals and division of labor (Jensen & Meckling, 1976; Ross, 1973). SOEs are generally considered to suffer more from agency problems than private firms mainly because of the double goal conflict they face. On the one hand, SOEs are actually controlled by bureaucrats who have concentrated control rights but not significant cash flow rights, since the latter are dispersed among the taxpayers (Shleifer & Vishny, 1994). On the other hand, SOE managers are public employees who "…cannot personally reap the benefits of increasing revenues yet they will bear many of the costs (e.g., angry workers and disgruntled suppliers) of reducing the firm's production costs" (Megginson, 2005: 39). Serious agency problems reduce SOEs' commercial motivation and can discourage them from choosing optimal ownership modes in CBAs. In addition, SOEs' obligations often include maintaining payrolls, supporting national development plans, and promoting other politically-motivated objectives (Lin et al., 2009; Zheng & Chen, 2009). Their overseas acquisitions may have securing key natural resources, building bridges between the two countries, or transferring monetary resources to a target government among their motivations. All these may make the CBAs of state-owned acquirers more case-specific and less relevant models for imitation even by late-coming SOE compatriots.

Hypothesis 6 The relationship proposed in H5 is stronger than that proposed in H4.

Methods

Data and sample

Most nations maintain SOEs, but they remain particularly prevalent in China. The People's Republic has been a leading destination for FDI for more than 20 years, but China itself has been increasing its investments abroad in recent years. The FDI outflow from China (excluding Hong Kong and Macau) reached US$186 billion in 2008, up 132 % from 2007 (World Investment Report, 2009). The country ranked 13th in the world as a source of FDI and third among all developing and transitioning economies in that year (Yun & Margot, 2009). The total value of China's CBAs between 2006 and 2008 was around US$10.6 billion (World Investment Report, 2008). Several of its large

transactions drew global media attention (Chen & Young, 2010; Liu, Low, & Niu, 2011). Many of China's CBAs have been in locations with a similar institutional environment, rich natural resources, or advanced technology (Morck et al., 2008; Rugman & Li, 2007). Foreign investors have in some cases proven skeptical of CBAs made by state-owned Chinese acquirers (Chen & Young, 2010).

The SDC platinum database records the first CBA from China as having been made in 1983. From 1983 to 2008 the database reports 661 CBAs made by Chinese firms. They constituted the initial sample of this study. Thirty-three of those transactions were dropped from the dataset because when they were made the acquirer already held majority ownership in the target. Eighteen observations were dropped due to missing data. Since the analysis used a 3-year moving time window, two transactions which took place before 1987 were not included in the modeling. So the final sample included 608 CBAs made by Chinese firms from 1987 to 2008. A quarter were made by state-owned Chinese firms.

In the first CBA made by a Chinese firm in 1983 the acquirer purchased only 19 % of the shares of the overseas target. Two years later, in the second CBA, another Chinese acquirer made a full acquisition. Subsequent Chinese acquirers sought majority ownership about as often as they sought a minority holding. Both the number and value of transactions increased over the period studied (Fig. 1).

Measures

Dependent variable

Folta (1998) considered acquisitions with 50 % or more ownership acquired as giving the investor control of the target. A more conservative measure of majority-ownership was used in this study because there were 16 cases in which exactly 50 % ownership was acquired by the Chinese acquirer. The available data did not reveal whether or not

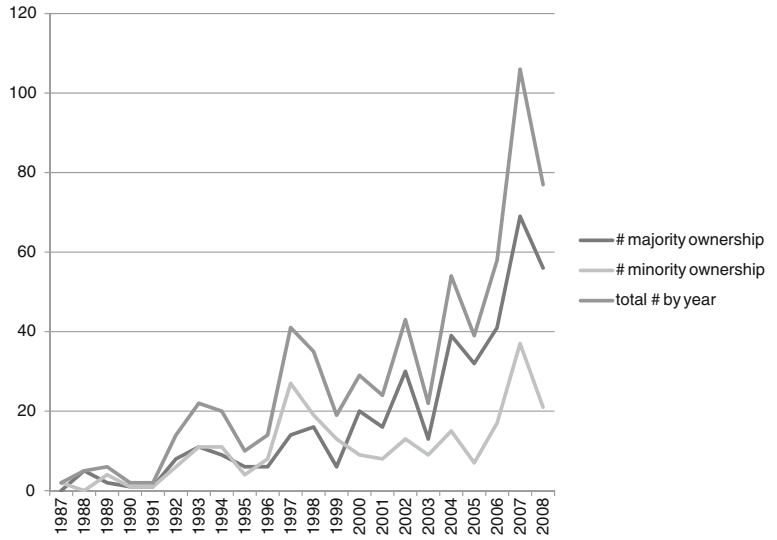

Fig. 1 The number of cross-border mergers and acquisitions made by Chinese firms during 1987–2008

there was another single owner with the other 50 % such that the Chinese acquirer would not have absolute control, so in this study only acquisitions with more than 50 % ownership acquired were considered as majority-ownership CBAs, giving the investor control of the target. The dependent variable *majority-ownership CBA* was a dummy variable set equal to 1 if the Chinese investor had more than 50 % of the equity after the transaction, and 0 otherwise. Based on this dichotomization, 381 of the CBAs studied were majority-ownership CBAs, while the other 227 transferred minority ownership.

Independent variables

Prior home country majority CBAs was defined as the percentage of acquisitions by Chinese investors in the 3 years prior to a focal transaction in the host country and in the same industry which transferred majority ownership. *Prior developed region majority CBAs* was the percentage of majority-ownership acquisitions made by firms from developed economies in that host country and industry in the 3 years prior to a focal transaction. "Developed economies" were according to the United Nations' classification, which considers North America, Europe, Japan, Australia, and New Zealand as developed regions. Only the transactions in the previous 3 years were considered because research has shown that firms tend to imitate only recent actions (Ang et al., 2015). Observations where there had been no foreign acquisition in the host country and in the same industry during the previous 3 years were dropped from the sample. Therefore, the sample used in the regressions testing Hypotheses 1–3 was reduced to 228.

Prior home country SOE majority CBAs was the percentage of majority-ownership acquisitions in the host country made by state-owned Chinese firms over the previous 3 years. *Prior home country non-SOE majority CBAs* was the percentage of such acquisitions made by Chinese firms which were not state-owned. Since the size of the SOE subsample was already small (n = 151), these variables were no longer restricted to acquisitions in the same industry. Observations where there had been no other Chinese acquirer over the previous 3 years were dropped. The SOE and non-SOE subsamples used in the regressions testing Hypotheses 4–6 were therefore reduced to 80 and 312 respectively.

Control variables

In order to test for any imitation effects, it was important to control for as many other factors as possible which might explain ownership-based entry mode choices from other perspectives. Six sets of covariates were controlled for in the models.

The first set included factors that the transaction costs and resource-based perspectives suggest may influence the dependent variable. Transaction cost economics (Anderson & Gatignon, 1986) and ethnocentric arguments (Weichmann & Pringle, 1979) both suggest that foreign investors' international experience is likely to influence their entry mode choices. While controversy still persists, it is generally believed that there is an inverted U-shaped relationship between an investor's international experience and the level of ownership they acquire in FDI (Erramilli, 1991; Li & Yue, 2008). An *acquirer experience* variable was therefore measured as the number of CBAs an acquirer had previously concluded. This variable and its square were included in the

initial modeling, but the squared term was later dropped, as it showed no significant relationships but increased multicollinearity.

The resource-based perspective and transaction cost economics emphasize the characteristics of the target's assets and the acquirer's ability to internalize them. To account for these factors, the following two variables were controlled. *Diversification* was a dummy control variable set equal to 1 if the target operated in a different two-digit SIC sector from the acquirer, and 0 otherwise. Technological asymmetry was indicated by a *high-tech target* dummy set equal to 1 if the target firm was a high-tech firm and 0 otherwise.

The second set of two dummy control variables described the target's ownership. They were included in the modeling because there were no data available on the relative size and financial capacity of the target and the acquirer. Three types of target ownership were considered: privately-owned, state-owned, and publicly-listed. The publicly-listed status was the reference group. This categorization was adopted to imply the firms' relative size and financial capabilities. Generally speaking, privately-held targets are smaller and easier to take over. *State-owned acquirer* was a dummy variable set equal to 1 if the Chinese investor or the ultimate parent of the Chinese investor was state-owned, and equal to 0 otherwise.

Some other factors considered likely to influence MNCs' entry mode choices were also controlled for. To account for the general attractiveness of the host country as an investment target, the following three variables were included in the models. The *pre-emption risk* of the host country was measured by the value of CBA transactions in that host country as a percentage of worldwide CBA in the 3 years prior to the focal transaction. The data were obtained from the UNCTAD cross-border M&A database. *Host country risk* was measured by a combination of political risk, financial risk, and economic risk in the year previous to the focal transaction. The data were extracted from the international country risk guide published by the PRS Group. The *host GDP per capita* of the host country in the year of each transaction was also included. The data were obtained from publications of the United Nations and the International Monetary Fund. The unit was US$ $\times 10^3$.

An *unfriendly attitude* dummy was set equal to 1 if the acquisition was not friendly, and 0 otherwise. *Follow-up investment* was a dummy set equal to 1 if the focal transaction was not the first involving that acquirer and that target, and 0 otherwise. The sample included 85 cases where the ultimate parent of the acquirer was not Chinese. A *return investment* dummy was set equal to 1 if the ultimate parent of the acquirer was from the same country in which the target was operating, and 0 otherwise. Finally, the restrictions on FDI in the host country were represented by the country's *economic freedom index* published by the Fraser Institute. The index considers five factors: size of government, legal structure and security of property rights, access to sound money, freedom to trade internationally, and regulation of credit, labor, and business. The measure is reported on a 5 year basis for the years between 1970 and 2000 and yearly after 2000. Following the lead of Delmestri and Wezel (2009), annual *economic freedom index* scores were developed for the years between 1987 and 2000 by assuming a linear trend within each 5-year range.

With all these control variables, there may still have been some unobserved factors influencing the Chinese acquirers' ownership mode choices. Following the lead of previous research (Lu, 2002; Yiu & Makino, 2002) year dummies, industry dummies,

acquirer dummies and acquirer group dummies were also included as control variables. The set of *year* dummies represented 1987 to 2008, with 1986 as the base year. The set of *acquirer industry* dummies indicated the primary industry in which the acquirer operated in China. The set of *target industry* dummies indicated the target's primary industry in the host country. Finally, the set of *acquirer* and *acquirer group* dummies represented any fixed effects associated with a particular acquirer or its business group. Since it is always difficult to clearly set the boundaries of business groups in emerging economies (Khanna & Rivkin, 2006), in this study the definition was limited to firms with the same ultimate parent. There were 24 *acquirer* dummies indicating acquirers that made more than 3 acquisitions, and 6 business group dummies indicating business groups that had made more than 5 CBAs from 1983 to 2008.

Modeling

Logit models were evaluated to test the hypotheses, because that formulation can accommodate a binary dependent variable (Haunschild & Miner, 1997; Hennart & Reddey, 1997). The standard maximum likelihood procedure was applied. To avoid any multicollinearity arising from the interaction terms and the squared terms, the variables involved were centered before the modeling (e.g., Chan & Makino, 2007). The "cluster" option in the Stata software suite was invoked to correct for any heteroskedasticity caused by business group affiliation. The clustering was thus at the business group level.

Results

Table 1 summarizes the descriptive statistics describing the variables used to test Hypotheses 1–3. Since the correlations between several explanatory variables are high (i.e., the highest correlation is observed between *pre-emption risk* and *prior developed region majority CBAs*, where $\rho = .54$), variance inflation factors (VIFs) were computed for each model. The maximum VIF of the complete model (i.e., an acquirer industry dummy in Model 3) was 4.76, well below 10, so multicollinearity does not seem to have been a major issue in this study (Ryan, 1997).

Table 2 shows the coefficients of the logit models testing Hypotheses 1–3. Hypothesis 1 concerns the relationship between the frequency of prior majority-ownership CBAs conducted by home country firms and the likelihood of majority ownership being purchased in subsequent transactions. The coefficient of *prior home country majority CBAs* is positive and significant in Models 2 and 3 ($p \leq .05$). Hypothesis 1 is thus strongly supported.

Hypothesis 2 predicts that the probability of acquiring majority ownership is likely to increase with the frequency of prior majority acquisitions made by acquirers from developed economies. The coefficient of the *prior developed region majority CBAs* term was not significant in any of the models, so that hypothesis was not supported. Any imitation of majority control entry moves extends only to compatriot peers. A Wald test shows a significant difference between the coefficients of the *prior home country majority CBAs* and the *prior developed region majority CBAs* terms ($p \leq .10$). This delivers some support for Hypothesis 3, which predicts that the effect of *prior*

Table 1 Descriptive statistics and correlation matrix

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Majority-ownership CBA	.68	.47															
2. Prior home country majority CBAs	.68	.36	.31														
3. Prior developed region majority CBAs	.66	.32	.14	.30													
4. State-owned acquirer	.18	.39	−.03	.00	.04												
5. Economic freedom index	8.02	.56	.13	.21	−.32	−.11											
6. Acquirer experience	.63	1.43	−.20	−.30	−.10	.10	−.14										
7. Host GDP per capita*	31.67	10.33	.12	.15	.28	−.09	.20	.02									
8. Host country risk	18.10	5.45	.12	.16	.35	.03	−.43	.02	−.08								
9. Pre-emption risk	.11	.14	.17	.38	.54	.21	.10	−.12	.14	.33							
10. High-tech target	.24	.43	.11	.15	.11	−.16	.12	−.13	−.01	.13	.17						
11. Diversification	.56	.50	−.10	−.09	−.04	−.06	.03	−.04	−.07	−.09	−.03	−.10					
12. Unfriendly attitude	.11	.32	−.34	−.10	−.12	.01	−.01	.15	−.08	−.05	−.09	−.04	−.07				
13. Return investment	.06	.24	−.06	.08	−.03	−.12	.17	.09	−.05	−.16	−.03	.03	.01	.08			
14. Follow-up investment	.12	.32	−.35	−.21	−.06	.00	−.08	.24	−.02	−.05	−.04	−.08	.02	.30	.19		
15. State-owned target	.04	.20	.04	−.07	.01	.02	.08	.16	−.01	−.06	−.02	−.01	−.09	.00	−.05	−.07	
16. Privately-owned target	.44	.50	.35	.27	.07	−.06	.15	−.19	−.03	.15	.05	.20	.04	−.24	.03	−.27	−.18

$N = 228$. * indicates thousands of US dollars as the unit. All correlations above $|0.09|$ are significant at the 5 % level

home country majority CBAs should be stronger than that of *prior developed region majority CBAs*.

Tables 3 and 4 summarize the descriptive statistics of the variables used to test Hypotheses 4–6. Since the correlations between several explanatory variables are higher than .50, VIFs were again computed. The maximum VIF of the complete model using SOE subsample was 3.21 (*prior home country non-SOE majority CBAs* in Model 5), and the maximum VIF of the complete model using non-SOE subsample was 2.72 (a year dummy in Model 7), again well below 10. So multicollinearity does not seem to be a major issue here either. Note that no return investment is possible when the Chinese acquirer is state-owned.

Models 4–7 in Table 5 test Hypotheses 4–6. Hypothesis 4 predicts a positive relationship between the prior frequency of majority-ownership acquisitions by state-owned Chinese acquirers and the likelihood of a later SOE entrant acquiring a majority stake. The coefficient of *prior home country SOE majority CBAs* is negative rather than positive ($p \leq .001$) in Model 5. Hypothesis 4 is thus not supported. Hypothesis 5 predicts that the probability of a non-state-owned acquirer acquiring majority ownership should increase with the frequency of prior majority acquisitions by non-state-owned Chinese firms. The coefficient of the *prior home country non-SOE majority CBAs* term is significant and positive in

Table 2 Coefficients of Logit models predicting ownership mode imitation

	Model 1	Model 2	Model 3
H1: Prior home country majority CBAs		.62*(.25)	.62*(.25)
H2: Prior developed region majority CBAs			−.10(.34)
State-owned acquirer	−.80(.52)	−.93†(.50)	−.93†(.50)
Economic freedom index	.00(.36)	−.12(.35)	−.18(.36)
Acquirer experience	.17(.21)	.26(.25)	.26(.24)
Host GDP per capita	.49(.38)	.42(.36)	.45(.37)
Host country risk	−.27(.43)	−.42(.46)	−.43(.46)
Pre-emption risk	1.01**(.34)	.94*(.42)	1.01*(.52)
High-tech target	−.57(.53)	−.64(.54)	−.63(.54)
Diversification	−.35(.49)	−.22(.49)	−.22(.49)
Unfriendly attitude	−1.90***(.52)	−2.03***(.54)	−2.03***(.54)
Return investment	.50(1.01)	.14(1.01)	.17(1.02)
Follow-up investment	−1.82*(.72)	−1.64*(.82)	−1.65*(.81)
State-owned target	−.29(.74)	−.15(.79)	−.08(.75)
Privately-owned target	1.08*(.54)	.92(.56)	.93†(.56)
Constant	3.76**(1.33)	4.40**(1.43)	4.41**(1.44)
Acquirer industry dummies, target industry dummies, year dummies included			
Log likelihood	−83.30	−80.81	−80.78
Chi-squared	117.65***	124.15***	125.07***

$N = 228$; Mean VIF = 2.12; Maximum VIF = 4.76

This is a two-tailed test. All covariates are controlled for in all models. Standard errors are in parentheses

† indicates significance at the $p \leq .10$ (* $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$) level of confidence

Table 3 Descriptive statistics and correlation matrix of the SOE subsample

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Majority-ownership CBA	.36	.48													
2. Prior home country SOE majority CBAs	.43	.34	.19												
3. Prior home country non-SOE majority CBAs	.53	.31	.21	.41											
4. Economic freedom index	8.51	.66	−.25	−.45	−.04										
5. Acquirer experience	1.53	3.19	−.12	−.24	−.17	.12									
6. Host GDP per capita*	26.17	9.38	.29	.41	.18	−.16	.02								
7. Host country risk	19.66	5.28	−.12	−.22	.15	−.03	.08	−.47							
8. Pre-emption risk	.06	.12	.20	.57	.66	−.21	−.15	.21	−.07						
9. High-tech target	.13	.33	−.13	.12	.13	.09	.09	.03	−.15	.25					
10. Diversification	.65	.48	−.16	−.04	−.12	.34	.21	−.01	.00	−.08	.20				
11. Unfriendly attitude	.23	.42	−.28	−.22	−.28	.00	.15	−.27	.10	−.23	−.11	.14			
12. Return investment	.21	.41	−.33	−.21	−.12	.11	.22	−.03	−.14	−.15	.27	.12	−.13		
13. State-owned target	.09	.28	.04	−.13	−.15	−.12	.07	−.08	.06	−.08	−.12	−.33	.15	−.16	
14. Privately-owned target	.24	.43	.19	.09	.32	−.15	.02	−.01	.42	.23	−.12	−.27	−.09	−.22	−.17

$N = 80$. * indicates thousands of US dollars as the unit. All correlations above $|0.21|$ are significant at the 5 % level

Table 4 Descriptive statistics and correlation matrix of the non-SOE subsample

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Majority-ownership CBA	.64	.48														
2. Prior home country SOE majority CBAs	.48	.33	.23													
3. Prior home country non-SOE majority CBAs	.59	.32	.23	.31												
4. Economic freedom index	8.51	.56	−.06	−.14	−.25											
5. Acquirer experience	.39	.97	−.01	.06	−.01	−.16										
6. Host GDP per capita*	28.74	8.00	.10	.45	.33	−.37	.13									
7. Host country risk	18.16	4.57	−.03	−.12	.15	−.20	−.04	.07								
8. Pre-emption risk	.06	.09	.17	.25	.56	−.46	.01	.53	.42							
9. High-tech target	.25	.43	.01	−.07	.02	−.09	.01	.05	.16	.12						
10. Diversification	.61	.49	−.12	−.15	−.16	−.02	−.03	−.14	.08	−.02	−.09					
11. Unfriendly attitude	.11	.32	−.32	−.04	−.04	.11	−.05	−.03	.00	.01	−.02	.02				
12. Return investment	.10	.30	.06	−.08	−.04	.07	.00	−.12	−.06	−.11	−.09	−.05	−.01			
13. Follow-up investment	.12	.32	−.33	−.08	−.06	−.01	.13	.02	.02	−.01	−.04	.02	.19	.19		
14. State-owned target	.04	.21	.07	.04	−.03	.08	.12	−.01	−.09	−.09	−.09	−.08	−.03	−.07	−.03	
15. Privately-owned target	.48	.50	.44	.10	.11	.00	−.09	−.03	.01	.06	.14	−.11	−.18	.03	−.25	−.21

$N = 312$. * indicates thousands of US dollars as the unit. All correlations above $|0.10|$ are significant at the 5 % level

Model 7 ($p \leq .05$). This delivers support for Hypothesis 5. The entry mode choices of non-state-owned compatriots are apparently more subject to imitation than those of state-owned compatriots. A *t*-test shows that the difference between the coefficient of *prior home country SOE majority CBAs* in Model 5 and that of *prior home country non-SOE majority CBAs* in Model 7 is highly significant ($p \leq .001$). Hypothesis 6 is therefore supported.

The coefficient of *prior home country non-SOE majority CBAs* is significantly positive in the results of SOE subsample as well ($p \leq .001$ in Model 4, $p \leq .05$ in Model 5). It indicates that both SOE and non-SOE Chinese acquirers tend to copy the ownership share decisions of non-state-owned Chinese firms. In contrast, while the prior frequency of majority-ownership CBAs conducted by state-owned Chinese acquirers decreases the likelihood of other Chinese SOEs seeking majority ownership, it does not influence non-SOEs' choices.

Chinese investors tend to acquire majority control of their targets when the pre-emption risk in the host country is high, as the coefficient of *pre-emption risk* is significantly positive ($p \leq .001$ in Model 6, $p \leq .01$ in Model 1, $p \leq .05$ in Models 2, 3, and 7). An unfriendly acquisition approach is less likely to end up with control change, as the coefficient of *unfriendly attitude* is significantly negative ($p \leq .001$ in all models). The coefficient of *return investment* is significantly positive ($p \leq .05$ in Models 6 and 7), indicating that acquirers making return investments are more likely to purchase majority ownership. The coefficient of *follow-up investment*s is significant and negative, indicating that Chinese acquirers are less likely to acquire majority ownership ($p \leq .05$ in Models 1–3, $p < .001$ in the rest of the models) in follow-up investments than in first-time investments. Perhaps due to their limited size, privately-owned targets are more likely to be taken over with a control change ($p \leq .001$ in Models 4 and 5; $p < .05$ in Model 1). State-owned Chinese acquirers are more conservative in acquiring majority ownership in host countries with lower economic freedom indexes ($p \leq .001$ in Models 4 and 5), with higher country risk ($p \leq .001$ in Models 4 and 5) or in high-tech targets ($p \leq .001$ in Models 4 and 5). Experienced SOE Chinese acquirers are more likely to acquire control than SOEs with less experience ($p \leq .001$ in Models 4 and 5). Furthermore, SOE Chinese acquirers are more likely to acquire control of firms in more affluent host countries ($p \leq .001$ in Model 4, $p \leq .01$ in Model 5) or when the target industry is different from their own primary industry ($p \leq 0.001$ in Models 4 and 5).

Robustness check

To test whether the findings might be sensitive to the specific measures chosen for the dependent and explanatory variables, some robustness checks were conducted with different operational measures. First, different ways to dichotomize majority vs minority ownership CBAs were tested. Stakes of more than 50, 60, and 80 % were considered as majority-ownership CBAs. The percentage of ownership acquired was also treated as a continuous dependent variable and OLS regressions were evaluated. The results did not change much from those reported.

Second, acquisitions of Hong Kong firms were excluded (241 of the transactions in sample of 608 were excluded). Due to Hong Kong's special strategic position, it has long served as an intermediary between China and the rest of the world, so Hong Kong

Table 5 Coefficients of Logit models predicting ownership mode imitation

	SOE subsample		Non-SOE subsample	
	Model 4	Model 5	Model 6	Model 7
H4: Prior home country SOE majority CBAs		−1.71***(.16)	.43†(.23)	.29(.22)
H5: Prior home country non-SOE majority CBAs	.84***(.02)	.51*(.22)		.32*(.16)
Economic freedom index	−1.19***(.21)	−2.89***(.42)	.49(.33)	.15(.24)
Acquirer experience	.53***(.01)	.29***(.05)	.15(.29)	.09(.25)
Host GDP per capita	.78***(.12)	1.15**(.38)	−.17(.33)	.05(.30)
Host country risk	−1.15***(.15)	−1.39***(.34)	−.26(.47)	−.23(.29)
Pre-emption risk	−.14*(.05)	.33†(.17)	1.22***(.37)	.62*(.27)
High-tech target	−2.20***(.08)	−1.32***(.24)	−.73†(.43)	−.5(.40)
Diversification	.40***(.10)	1.48***(.24)	−.18(.37)	−.03(.33)
Unfriendly attitude	−3.12***(.03)	−4.91***(.36)	−2.33***(.57)	−2.17***(.54)
Return investment			1.89*(.84)	1.75*(.72)
Follow-up investment	−4.80***(.12)	−6.54***(.32)	−2.69***(.68)	−2.35***(.62)
State-owned target	1.76***(.25)	2.09***(.43)	1.65*(.77)	1.76*(.75)
Privately-owned target	.15(.15)	.62***(.18)	1.56***(.42)	1.77***(.34)
Constant	1.79***(.32)	2.52***(.54)	1.27(.77)	.97†(.53)
Acquirer industry dummies, target industry dummies, year dummies included				
Log likelihood	−38.38	−26.54	−134.29	−130.42
Chi-squared	43.77***	26.17***	113.80***	119.68***
N	107	80	331	312
Mean VIF	2.10	2.19	1.63	1.61
Maximum VIF	3.44	3.29	3.58	2.75

This is a two-tailed test. All covariates are controlled in all models. Standard errors are in parentheses

† indicates significance at the $p \leq .10$ (* $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$) level of confidence

acquisitions may more often have strategic rather than simple and immediate commercial motivations. Nevertheless, the results remained more or less unchanged.

Probit models have sometimes been used to deal with binary dependent variables (e.g., Barnett & Carroll, 1987; Li, 2008), so the analysis was repeated using probit models. But again the results were similar (not reported for the sake of simplicity). The results of these robustness checks deliver further support for the study's findings.

Majority, minority and 50 % ownership moves can all be subject to imitation. In this study there were only 16 transactions in which exactly 50 % of the equity was purchased, so it was not possible to test for imitation in that situation. But imitation of minority-ownership moves was tested. To test for imitation of previous majority and minority ownership moves by peer compatriots in the same models, the entry mode choices of peers were represented differently (Chan & Makino, 2007; Xia, Tan, & Tan, 2008). Prior majority acquisitions by home country SOEs were represented as the number of such CBAs in which the state-owned Chinese investor obtained majority

ownership in the 3 years prior to a focal transaction in the host country. Minority acquisitions were represented similarly, and transactions by non-SOEs in the same two ways. The dependent variable in the modeling was still the likelihood of majority ownership being acquired. Explanatory variables with positive coefficients increased the likelihood of majority-ownership being acquired; those with negative coefficients increased the likelihood of a minority-ownership strategy being adopted. The results show that the number of prior home country majority CBAs and the number of prior home country SOE or non-SOE majority CBAs had predictive power similar to those of the percentage of prior home country majority CBAs and the percentage of prior home country SOE or non-SOE majority CBAs. However, the number of prior home country minority CBAs and the number of prior home country SOE or non-SOE minority CBAs showed no significant impact on firms' ownership-based entry mode choices. This result is similar to what has been found in previous research (Guillén, 2003; Xia et al., 2008), where imitation was found to have little influence when a minority stake is purchased. This may be explained by the high signaling value and the greater uncertainty involved with majority-ownership CBAs.

Discussion

Contributions

Despite its important implications for resource commitment, risk, returns, and control, the share of equity acquired by foreign firms in CBAs has not received much academic attention (Chari & Chang, 2009). Taking an institutional perspective, we argue that selective inter-organizational imitation helps explain the variations in ownership-based entry mode choice in CBAs conducted by EMNCs. Specifically, we suggest a home country effect, capturing EMNCs' tendency to imitate their home country peers rather than DMNCs in their ownership-based entry mode choices. This finding is consistent with the macro-level evidence found by World Investment Report (2006, 2010) that EMNCs and DMNCs systematically prefer different types of entry modes of FDI. For example, EMNCs tend to prefer greenfield while DMNCs tend to prefer cross-border merger and acquisitions (World Investment Report, 2006, 2010).

Further, we separated the effects of state-owned and non-state-owned compatriots. This revealed that previous entry mode decisions made by privately-owned compatriots are likely to be imitated by both state-owned and private acquirers arriving later in the same host country, but the previous choices of state-owned peers are not likely to be imitated by late-coming compatriots with either type of ownership. Analysis with a split sample further show that more frequent pursuit of a majority share by earlier state-owned Chinese acquirers decreases rather than increases the likelihood of a later state-owned Chinese investor's acquire majority share. This may be attributed to the different resources and incentives SOEs and private firms have at home. Compared with private acquirers, state-owned Chinese acquirers tend to have different incentives and strategic goals, and they are also likely to be perceived less favorably in CBA transactions by the host country. This may make them reluctant to imitate the previous strategic choices of state-owned peers, and even purposely avoid choosing the strategies that have been chosen by state-owned compatriots previously in the same host environments.

Looking into the ownership-based entry modes of CBAs, this paper investigates how institutional pressures "…in the country of origin influence commitment decisions in international business" (Meyer & Thaijongrak, 2013: 1143). The diverging tendency to imitate can be explained by the interplay of selective imitation and home and host country institutions. Home country institutions apply pressure for EMNCs to imitate the practices of their peer compatriots. State ownership brings regulatory and normative pressures from the both home and host countries that would be expected to influence the mimetic tendencies of EMNCs in decision-making.

The findings of this study may have special implications for EMNCs from emerging and developing Asia. They were more internationalized than EMNCs from other regions, and involved in about 30 % of CBAs worldwide (by value) in 2013 (World Investment Report, 2014). When an Asian EMNC considers an acquisition in a host country, they may find more and more peer compatriots whom they can imitate. Like the Chinese acquirers, acquirers from other Asian emerging economies may also lack international experience and competitive advantage in international markets, and thus may be willing to imitate the practices frequently adopted by compatriots in the host country previously. In fact, with few exemptions (e.g., Oehme & Bort, 2015), most empirical research on imitative entry decisions has dealt with emerging Asia (e.g., Ang et al., 2015; Guillén, 2003). The Asian EMNCs' lack of competitive advantages and their emphasis on social cues might have driven this, but it would be interesting to investigate similar topics in other geographic contexts.

Limitations and future research

One key limitation of this research is that it failed to exclude all possible alternative mechanisms behind the interdependent entry mode decisions. Rather than imitation, similar entry mode decisions may be influenced by trends or fads. Inter-organizational learning may be involved. Or there may be continued presence of key factors that lead Chinese firms to make similar but independent decisions (Hennart & Slangen, 2015). Due to data limitations, only the potential for time trends could be explored in this study. The data show that before 1998 there was a trend for Chinese acquirers to buy larger equity shares over the years in certain industries. That trend later faded away in the 1999–2008 period covering more than three-fourths of the observations. Trends are not, therefore, likely to be an alternative explanation of the findings.

There are some other areas for future research. First, the situation where institutional pressures from home and in the host country conflict (Meyer et al., 2014) has not been addressed. For example, while SOEs may suffer weak legitimacy overseas, they may enjoy high legitimacy domestically. Later entrants may imitate the practices of SOE compatriots primarily to gain legitimacy at home rather than in the host country. Then, while the independent variables in this study were measured appropriately, the operational measures of some control variables may not have been very sufficient. For instance, the overall international experience of the Chinese investors was not considered. There was not attempt to differentiate among several types of international experience. With substantial FDI inflows into China for over two decades now, Chinese investors have more channels for gaining international experience.

A third limitation of this study protocol was the lack of attention to performance implications. It would be interesting to see how inter-organizational imitation

contributes to the financial outcome of an investment. And, due to data limitations, no other possible reference groups have been considered, such as acquirers from other emerging economies, members of the acquirer's networks, or investments by acquirers of similar size (Greve, 1998). More data collection work is needed to overcome these limitations in future studies.

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