Invited Article

Seasoned Sailors: Can MNEs Learn with Troubled Institutional Environments?

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ABSTRACT

In the present study, we examine the manner in which firms' experiential learning in challenging institutional environments shapes their entry strategies in subsequent international acquisitions targeting comparable contexts. Specifically, our research delineates the nexus between the institutional expertise firms garner from operations in countries characterized by deficient institutional frameworks and the level of ownership they subsequently elect in acquisitions within similarly constituted environments. Utilizing a dataset comprised of 3,577 cross-border acquisitions aimed at emerging markets, spanning the period from 2010 to 2019, we find that institutional experience serves as a moderating variable. This moderation influences the impact of corruption, economic freedom, and political stability on the proportion of ownership stakes acquired during the transaction. While firms are generally inclined to augment their ownership levels in acquisitions where the institutional environment is more favorable, our findings paradoxically reveal that institutional experience amplifies, rather than mitigates, the relationship between extant institutional conditions and the chosen level of ownership, contrary to our initial hypotheses.

INTRODUCTION

In recent years, multinational enterprises (MNEs) have intensified their engagement in cross-border acquisitions (CBAs), with a notable focus on emerging markets (Li et al., 2020). These acquisitions are motivated by a myriad of factors, including the pursuit of novel opportunities, resource accessibility, and geographical expansion (Falaster et al., 2021). As the frequency of such transactions escalates, comprehending the determinants of ownership structure in CBAs becomes critically important. Among these determinants, the institutional milieu of the target country has been identified as a salient factor (Kogut & Singh, 1988; Pinto et al., 2017).

Ownership selection in international acquisitions emanates from a series of strategic decisions aimed at optimizing market entry. Ownership levels may vary from partial minority stakes (50% or less) to partial majority holdings (over 50% but less than 100%), to full acquisitions (100%) (Pinto et al., 2017). The ownership decision is consequential due to the array of risks it imposes on financial, human, and both tangible and intangible assets (Lahiri et al., 2014).

MNEs' experiential knowledge in international markets shapes their internationalization processes (Falaster et al., 2021). Barkema and Vermeulen (1998) argue that firms operating in diverse national and product contexts accumulate rich knowledge structures and robust technological capabilities. Such experiential assets, particularly in similar institutional environments, aid in risk perception and mitigation (Malhotra et al., 2010). Unlike novice investors, firms with a history of institutional challenges domestically or internationally tend to develop coping mechanisms that render future challenges less daunting (Darby et al., 2010; Malhotra et al., 2010). Thus, institutional experience acquired in environments akin to the host country can be instrumental for subsidiary survival and performance (Hitt et al., 2016).

This study delves into the impact of institutional experience on ownership structure choices in CBAs targeting emerging markets. We analyze a dataset comprising 3,577 international acquisitions, ranging from 2010 to 2021, with primary data sourced from Refinitiv's Mergers and Acquisitions database. The dependent variable is the ownership stake acquired, while the independent variables encompass corruption, economic freedom, and political stability. Surprisingly, our findings reveal that firms with more extensive institutional experience are disproportionately influenced by host-country conditions. Our research enriches the literature on institutions in international business by illuminating the intricate interplay between firms' experiential assets and institutional environments. This contribution addresses an extant gap and responds to the scholarly call for a more nuanced understanding of institutional complexities (Jackson & Deeg, 2019).

THEORY AND HYPOTHESES

The influence of a firm's unique knowledge assets on its economic organization, particularly in the context of international operations, has been extensively examined in scholarly literature (Foss & Pedersen, 2004; Hymer, 1976; Vernon, 1966). Kogut and Singh (1988) postulate that entry mode selection into the host country is a sequential decision-making process. Firms first decide between greenfield investments and acquisitions and subsequently determine the extent of ownership — i.e., the control over the acquired firm's capital. Ownership is conceptualized as a mechanism for exerting control in acquisitions, symbolizing not only share ownership but also the conferred decision-making authority (Anderson & Gatignon, 1986). Nevertheless, full acquisition is not universally advisable. Partially owned subsidiaries not only offer shared equity stakes but also possess governance features conducive to the tacit transfer of organizational knowledge, alongside certain strategic motivations and transaction cost considerations (Kogut & Singh, 1988). In contrast, full acquisitions entail comprehensive ownership and control, necessitating higher investments in human, tangible, and intangible assets, as well as greater overall commitment (Lahiri et al., 2014).

In seminal contributions, North (1990) posits institutions as rule-based frameworks guiding human interactions. According to North, institutions are instrumental in societal advancement and historical evolution, serving as the foundational mechanisms for such progress (Gala, 2020). Institutions may be either formal, designed to constrain human behavior through appointed agents, or informal, emerging organically from social interactions (North, 1990).

Institutions, while intricate, are of paramount importance and can be scrutinized through three distinct lenses: economic, political, and social (Williamson, 2000). Economically, institutions emerge when their societal benefits surpass associated transaction costs. Politically, institutions are fashioned by influential actors aiming to consolidate and augment their resources. Socially, institutions derive their legitimacy from collective beliefs that influence collaborative action and governance structures (La Porta et al., 1999).

Corruption

Corruption is generally characterized as a violation of formal rules, leading to direct or indirect gains for public officials and providing services or resources to third parties more easily than would be possible otherwise (Lafree & Nancy, 2004; Shleifer & Vishny, 1993). Conceptualized as an abuse of public office for private gain (Cuervo-Cazurra, 2006), corruption often implicates public servants, citizens, and beneficiaries (Philp, 2016), and can be either beneficial or detrimental, contingent upon the governing rules (Svensson, 2005). The magnitude of corruption is positively correlated with the discretionary power vested in government officials (Shleifer & Vishny, 1993).

For corruption to take root, three concomitant elements are essential: discretionary power, its economic utilization, and a weak legal and judicial infrastructure that imposes minimal sanctions on unlawful acts (Aidt, 2003). Discretionary power is wielded by multiple agents — political elites, administrators, and legislators —, each possessing varying sources of power and competencies (Jain, 2001).

The challenge of quantifying corruption is compounded by its illicit nature (Olken, 2006). Furthermore, Melgar et al. (2010) argue that both corruption and its perception can be cultural phenomena, subject to societal interpretations of rules and norms. Paradoxically, high levels of perceived corruption can exacerbate actual corruption due to increased gift-giving behaviors to achieve goals (Melgar et al., 2010).

Corruption has multifaceted implications for economies, infringing upon property rights and exacerbating tensions within political institutions (Dalla Vecchia et al., 2019). At the organizational level, corruption imposes additional costs — monetary and non-monetary — such as increased uncertainties and bureaucratic inefficiencies (Habib & Zurawicki, 2002; Luo, 2020). It also triggers additional official charges, tantamount to a form of taxation (Fisman & Svensson, 2007; Wei, 2000).

Corruption engenders economic uncertainty, which has been shown to have a robust and positive relationship with corruption itself (Goel & Ram, 2013). In environments rife with corruption, the predictability of outcomes — whether achieved legally or illegally — becomes highly uncertain (Kuncoro, 2006; Søreide, 2006). Amid such uncertainty, firms are likely to opt for lower degrees of ownership in international acquisitions (Anderson & Gatignon, 1986; Fuentelsaz et al., 2020), with joint ventures serving as transitional mechanisms to ameliorate associated risks (Mantecon, 2009). Contractor et al. (2014) posit that acquisitions involving elevated levels of uncertainty are more likely to result in minority acquisitions as opposed to majority or total acquisitions. Hence:

H1: A host country's level of corruption control positively influences the degree of ownership in CBAs.

Economic freedom

Economic freedom represents a foundational prerogative to exercise control over labor and property, a concept corroborated by empirical research (Miller et al., 2020). This notion extends to the capacity to engage in consensual contractual agreements under a well-established legal framework that not only preserves contractual sanctity but also safeguards private property, subject to limited governmental interventionism through property regulations, and taxation (Zhang et al., 2017). Distinct from political freedom, economic freedom serves as a composite indicator delineating the degree to which a particular economy operates as a market system (Peterson, 2013). Scholars have historically posited that economic freedom constitutes a vital antecedent for economic activities, fostering growth and development across various socio-political landscapes (Arslan et al., 2015).

In a society endowed with a high level of economic freedom, individuals are accorded the latitude to work, produce, consume, and invest without undue constraints. Such an environment facilitates the free flow of labor, capital, and goods, whilst minimizing coercive or restrictive practices that would otherwise infringe upon national sovereignty (Miller et al., 2020). Elevated levels of economic freedom invigorate market entry, heighten competition, and instigate firms to adopt innovative and competitive postures. Conversely, limited economic freedom stifles business opportunities, thereby suggesting that higher levels of economic freedom confer location-specific benefits to nations (Zhang et al., 2017).

The Heritage Foundation enumerates 12 salient factors, both quantitative and qualitative, that collectively inform the economic freedom index: property rights, government integrity, judicial effectiveness, government spending, tax burden, fiscal health, commercial freedom, labor freedom, monetary freedom, investment freedom, and financial freedom (Miller et al., 2020). A lower index score is indicative of a fragile legal and institutional milieu (Feito-Ruiz & Menéndez-Requejo, 2010).

As a seminal institutional variable, economic freedom carries implications for multinational corporations, influencing the outcomes of their international acquisitions (Zhang et al., 2017). One illustrative case pertains to the safeguarding of intellectual property rights. When markets exhibit failures in knowledge ownership, firms are inclined to internalize the dissemination of such knowledge as a protective measure (Makino & Delios, 1996).

Further, economic freedom exhibits a robust positive correlation with foreign direct investment (FDI) from multinationals (Arslan et al., 2015). Variations in economic freedom are particularly consequential for acquisition strategies in emerging markets. Firms are more likely to opt for minority ownership when the host country's economic freedom is deficient relative to that of their home country (Dang et al., 2018). Governmental influence in a less economically free society engenders negative stakeholder responses, jeopardizing acquisition deals (Zhang et al., 2017). Supportive policies and institutions in target countries that uphold economic freedom increase the likelihood of full acquisitions (Dang et al., 2018).

Moreover, in conditions where governmental control over the economy is circumscribed, economic freedom tends to flourish (Zhang et al., 2017). Governmental authority is typically exercised through prescriptive negotiation guidelines and market access controls (Cheng, 2008). Hence, within such constrained governmental contexts, firms generally demonstrate a predilection for higher ownership stakes in their international acquisitions (Cheng, 2008).

In summary, the level of economic freedom in a host country, as contrasted with the home country of a multinational corporation, is likely to exert influence over the firm's establishment and ownership strategies (Arslan et al., 2015). Elevated economic freedom mitigates operational uncertainties, as market dynamics rather than arbitrary governmental interventions dictate conditions. Reduced uncertainty consequently lowers the acquisition risk, thereby facilitating the likelihood of majority or complete acquisitions. Based on this rationale, the subsequent hypothesis is advanced:

> *H2:* A host country's level of economic freedom positively influences the degree of ownership in CBAs.

Political stability

Political stability is commonly operationalized as the absence of violent disruptions and perturbations that could destabilize or forcibly unseat an existing government. This entails the lack of politically motivated violence and terrorism (Barbopoulos et al., 2014; World Bank Group, 2020). Political instability, conversely, is characterized by the heightened likelihood of imminent governmental changes or collapses, manifested as shifts in executive power through either constitutional or unconstitutional means (Alesina et al., 1996; Ozler & Tabellini, 1991). Such conditions render stable political environments more attractive to foreign investors (Alesina et al., 1996).

In geopolitical contexts where the prospect of governmental collapse looms large, economic growth is discernibly compromised. Political instability engenders elevated levels of political uncertainty, thereby impeding effective economic decision-making (Alesina et al., 1996). Nevertheless, it is worth noting that accelerated economic growth can also beget political instability due to resultant social fissures and economic transformations (Alesina & Perotti, 1996). Despite the risks, firms may still derive benefits from investing in politically unstable countries, particularly when governments enact policies to mitigate instability, liberalize trade barriers, and open select sectors to global competition (Barbopoulos et al., 2014).

Pertaining to shifts in external environmental variables — such as political stability, government policies, or competition —, factors not directly within the ambit of control for multinational enterprises can catalyze modifications in ownership structures. A deteriorating milieu may necessitate disinvestment, whereas an improving one could justify augmented resource commitment (Fuentelsaz et al., 2020).

Additionally, socio-political or electoral occurrences can instigate uncertainties about the constancy of national institutions, legislative frameworks, economic policies, and property rights (Carmignani, 2003). Political stability acts as a mitigating force against such uncertainties (Kuncoro, 2006), for it is not merely the continuity of government that characterizes stability, but the expectation that present and future administrative agents will enact consistent and predictable economic policies (Ali, 2001). Under conditions of political stability, which entails reduced uncertainty, corporations are more likely to choose a higher degree of ownership in their international acquisitions (Anderson & Gatignon, 1986; Fuentelsaz et al., 2020). Therefore, it is postulated that the degree of political stability in the destination country will exert a positive influence on the level of ownership assumed in cross-border acquisitions. This sets the stage for testing the ensuing hypothesis:

> *H3:* A host country's level of political stability positively influences the degree of ownership in CBAs.

International experience

International experience is commonly regarded as a valuable asset, particularly when it comes to navigating transactions between countries that have differing levels of corruption, as such experience can be a decisive factor in the successful conclusion of a deal (Malhotra et al., 2010). Experience can be conceptualized as the "transferable benefits acquired through a firm's prior international commercial activities, which can serve as a referential point for future decision-making" (Mukherji et al., 2013, p. 41). This experience gradually shapes a company's entry into foreign markets, either through joint ventures or wholly owned operations (Guillén, 2003), and its accumulation offers a strategic advantage in international settings (Duanmu, 2014). A dearth of such experience can engender opportunistic behavior among partner firms (Maekelburger et al., 2012). In general, a firm's reservoir of experience tends to exert a positive influence on its internationalization trajectory (Love et al., 2016).

Literature acknowledges that experience influences both the cost and uncertainty associated with operating in foreign markets, thereby affecting foreign direct investment (FDI) location decisions (Benito & Gripsrud, 1992). Such experience also informs the site selection for future FDI investments and can be developed through other steps in the internationalization process, such as exporting (Duanmu, 2014). Companies that engage in exporting accrue invaluable experience, enhancing their comprehension of local customer preferences and facilitating the assimilation of pertinent information concerning host countries (Wei et al., 2014). Additionally, experience mitigates both the liability of foreignness and location-specific disadvantages (Hitt et al., 2016; Nielsen et al., 2017).

Experience serves as a mechanism for alleviating information asymmetry (De Prijcker et al., 2012), reducing uncertainty and risk, the latter of which can be transferred internationally to create added value (Huett et al., 2014). This experiential knowledge not only minimizes the risks of external ventures but also facilitates the identification of novel opportunities by synergizing internal and external resources (Figueira-de-Lemos et al., 2011). It becomes an essential element in generating ownership advantages, including asset control and transaction cost minimization (Padmanabhan & Cho, 1999). Firms with international experience are better positioned to sustain their resource advantages in diverse institutional landscapes (Huett et al., 2014).

Internationally experienced firms are better equipped to manage internal uncertainties that constrain foreign market entry choices (Laufs & Schwens, 2014; O'Farrell & Wood, 1994). Various dimensions of distance — geographical, institutional, linguistic, and religious — introduce layers of complexity, reducing the level of ownership in cross-border activities (CBAs). However, international experience mitigates this by enhancing ownership levels (Fuentelsaz et al., 2020). Firms with a wealth of international experience are more likely to opt for equity-based entry modes when asset specificity is low (Maekelburger et al., 2012). These firms require less reliance on local partners and exhibit a stronger preference for full ownership (Anderson & Gatignon, 1986; Dikova & Witteloostuijn, 2007).

Prior experience in acquisitions and in dealing with similar institutional frameworks helps companies perceive and manage risks and uncertainties more effectively in international contexts (Malhotra et al., 2010). Firms that possess such experience are more adept at navigating foreign business risks and may favor full or high ownership structures in acquisitions (Liou et al., 2016). Hitt et al. (2016) indicate that institutional familiarity significantly contributes to subsidiary survival and performance, although experience in institutionally dissimilar countries may elevate the risk of failure. Their research also demonstrates that the effects of both formal and informal institutions on the probability of completing cross-border acquisitions and the duration of negotiations are modulated by international experience.

In environments characterized by high corruption-induced uncertainty (Goel & Ram, 2013), companies tend to favor lower ownership levels in international acquisitions (Anderson & Gatignon, 1986; Fuentelsaz et al., 2020). Under such conditions, partnering with a local entity becomes crucial for understanding the host country's business landscape. However, firms that have experience in similar environments are better positioned to mitigate these uncertainties (Mutinelli & Piscitello, 1997). We propose to empirically examine this moderating effect and its impact on the choice of ownership levels in international acquisitions, thereby extending the scope of the relationship initially proposed in Hypothesis 1.

> *H4:* Experience with countries of similar institutional quality negatively moderates the relationship between the level of corruption and the choice of degree of ownership.

The relationship between economic freedom and foreign direct investment (FDI) from multinational corporations is underscored by a strong positive correlation (Arslan et al., 2015). Economic freedom is often more pronounced in contexts where governmental influence over the economy is minimized (Zhang et al., 2017). In such liberalized economic environments, firms generally demonstrate a preference for higher degrees of ownership in international acquisitions (Cheng, 2008).

The external environment influences organizational behavior and decision-making processes (Scott, 1995). When governments exert less control over economic activities, firms operate in a more predictable and less constrained institutional framework. This results in a proclivity toward higher ownership levels in international settings, as firms perceive fewer risks and uncertainties in governance structures. Therefore, we posit that firms with prior institutional experience in similar conditions are equipped with sufficient experiential knowledge to mitigate the challenges posed by environments characterized by low economic freedom. Such firms are better able to assess the associated risks and benefits, thereby reducing the influence of economic freedom-related uncertainties on ownership decisions. Consequently, we propose the following hypothesis to examine this moderating effect in the relationship initially articulated in Hypothesis 2:

> *H5:* Experience with countries of similar institutional quality negatively moderates the relationship between the level of economic freedom and the choice of degree of ownership.

Political stability serves as a pivotal institutional factor that diminishes the uncertainty associated with foreign direct investments (FDIs) in a host country (Abdelkader, 2015; Kuncoro, 2006). Under conditions of political stability, firms are inclined to assume higher degrees of ownership in their international acquisitions (Anderson & Gatignon, 1986; Fuentelsaz et al., 2020). Stable political conditions are associated with reduced transaction costs, including lower costs of monitoring and enforcement, facilitating a preference for greater ownership. Firms with substantive institutional experience in similar contexts can further minimize these transaction costs (Williamson, 1979). Such firms have gained expertise in navigating institutional frameworks, which significantly reduces their exposure to uncertainty (Cho & Padmanabhan, 2005; Jiang et al., 2020).

We argue that the institutional experience in similar political environments operates as a moderating variable. It decreases the impact of political stability on ownership decisions in international acquisitions. Firms with substantial institutional experience can efficiently decipher and adapt to the host country's political landscape, thereby mitigating the degree to which political stability alone would influence the choice for greater ownership. Consequently, we propose the following hypothesis to analyze this moderating effect further in the relationship initially postulated in Hypothesis 3:

> *H6:* Experience with countries of similar institutional quality negatively moderates the relationship between political stability and ownership choice.

METHOD

Our sample comprises 3,577 international acquisitions transacted between 2010 and 2019, with each acquisition occurring in an emerging market as the host country. The data were extracted from the Refinitiv's Mergers and Acquisitions database. The dataset omits transactions in which the acquirer obtained 10% or less of the capital of the target firm, thereby excluding acquisitions pursued solely for portfolio diversification purposes (Liou et al., 2016). Additionally, the dataset excludes transactions wherein the acquirer already held a preexisting ownership stake in the target company, as subsequent acquisitions are contingent upon the initial conditions. Acquisitions involving countries commonly regarded as tax havens were also excluded from the sample. Comprehensive information regarding the sample characteristics is presented in Table 1.

Table 1. Sample.

Acquirer nation			Target nation		
Nation	Freq.	%	Nation	Freq.	%
USA	718	20%	BRA	509	14%
JPN	373	10%	CHN	314	9%
GBR	318	9%	IND	308	9%
CAN	311	9%	MEX	211	6%
FRA	302	8%	TUR	190	5%
AUS	195	5%	ZAF	172	5%
DEU	145	4%	RUS	170	5%
ESP	127	4%	ISR	149	4%
NLD	89	2%	CHL	148	4%
SWE	89	2%	IDN	141	4%
Other	910	25%	Other	1,265	35%
Total	3,577				

The most frequently occurring host country in the sample is Brazil, constituting 14% of the acquisitions, which notably distances it from China and India, each accounting for 9%. On the acquirer side, the United States emerges as the most dominant, representing 20% of the sample. In contrast, Japan, the second most frequent acquirer nation, comprises approximately half of the United States' representation with 10%, closely followed by Great Britain and Canada, each constituting 9% of the sample.

Dependent variable

The focal dependent variable in this research pertains to the degree of ownership exercised in international acquisitions. Such ownership stakes are quantitatively assessed using percentages that denote the capital acquired in a given transaction. These data are sourced from the Refinitiv's Mergers and Acquisitions database. To ensure analytical rigor, transactions that involve acquisitions of 10% or less of the target firm's capital are systematically excluded, thereby eliminating instances primarily aimed at portfolio diversification (Liou et al., 2016).

Independent variables

The research operationalizes three principal independent variables: corruption control, political stability, and economic freedom. The control of corruption construct is drawn from the Worldwide Governance Indicators promulgated by the World Bank, and measures the extent to which public power is appropriated for private gain. This metric encompasses both grand and petty corruption as well as the state's capture by elites and vested interests (Barbopoulos et al., 2014; Li et al., 2016). Quantitatively, governance performance ratings on this dimension range from approximately -2.5 (indicating weak governance) to 2.5 (signifying strong governance), which are also translatable to a 0-100 percentage scale (World Bank Group, 2020). In this study, the percentage scale is inversed to facilitate interpretability, with higher percentages indicative of elevated corruption levels.

The economic freedom variable is ascertained through the Heritage Foundation's Economic Freedom Index. This composite index is an amalgam of 12 equally weighted factors including, but not limited to, property rights, fiscal health, and commercial freedom. The index utilizes a continuous scoring system, ranging from 0 to 100, where countries are classified along a spectrum of economic freedom ranging from 'repressed' to 'free' (Miller et al., 2020; Wang & Wang, 2012; Zhang et al., 2017).

Political stability is gauged by the political stability and absence of violence dimension, also a component of the World Bank's Worldwide Governance Indicators. This index captures the likelihood of the government being destabilized or overthrown through unconstitutional or violent means, inclusive of politically motivated violence and acts of terrorism (Barbopoulos et al., 2014; Duanmu, 2014; Fuentelsaz et al., 2020; Li et al., 2016). Like corruption control, this dimension is also numerically represented with governance performance scores ranging from -2.5 to 2.5 (World Bank Group, 2020).

Moderating variable

In this study, the moderating variable is designated as the 'institutional experience in similar environments' (IESE). This variable aims to encapsulate the level of expertise an acquiring firm possesses in navigating acquisitions within institutional contexts analogous to the focal acquisition. IESE is, in this study, calculated regarding experience in similar contexts of corruption control, economic freedom, and political stability. Hence, for each trait of the institutional environment, we have calculated a separate IESE specific to that trait.

The computation of IESE draws upon the comprehensive dataset retrieved from the Refinitiv's database and encompasses acquisitions conducted by the acquiring company since 1985. The methodological framework for formulating this variable involves several steps:

Initially, we identify three key institutional variables to represent the institutional characteristics of the host country for each acquisition: corruption control, economic freedom, and political stability. The host country's status vis-à-vis these variables is computed for each year and subsequently divided into quartiles, delineated as follows: low institutional quality (0-25%), medium-low institutional quality (>25-50%), medium-high institutional quality (>50-75%), and high institutional quality (>75-100%).

In the second stage, the quartile designation for each institutional variable is used to classify the status of the host country at the time of each respective acquisition. This classification serves to allow for a nuanced understanding of the complexities inherent in the institutional environment in relation to other countries.

Finally, the aggregate number of acquisitions each firm has undertaken within each quartile across the three institutional variables up to the focal year is calculated. This sum yields the IESE score, serving as an index of the firm's accumulated experience in institutional environments that are similar to the focal acquisition.

This multifaceted approach allows for a robust characterization of the firm's institutional acumen, providing a quantifiable measure that is sensitive to the subtleties of varying institutional conditions. Furthermore, this measure is grounded in a comprehensive temporal dataset, enhancing its validity as a moderating variable in the analysis of acquisition performance in diverse institutional landscapes.

Control variables

To enhance the robustness of our empirical model, we incorporated control variables at three hierarchical levels: country, industry, and firm. These controls aim to isolate the effects of our primary variables of interest and account for potential confounding factors. Firstly, we controlled for host country experience, operationalized as the acquiring firm's historical acquisition activities in the host country where the target firm is situated. This measure was computed by tallying the number of prior acquisitions made by the acquiring firm in the target country, as recorded in the Refinitiv's M&A database. By doing so, we sought to capture the firm's accumulated experiential knowledge in navigating the host country's institutional environment, which could influence the acquisition outcomes (Hennart, 2001). Secondly, we incorporated the target country's gross domestic product (GDP) as a control variable, drawing data from the World Bank database. However, it is important to note that only the GDP figures corresponding to the year of the acquisition's completion were considered. This control is introduced to differentiate the impact of a country's economic prosperity and its institutional characteristics on the acquisition process (Cuervo-Cazurra & Dau, 2009).

At the industry level, we employed two distinct dummy variables. The first, termed 'same industry,' is coded as '1' if both the acquiring and target firms belong to the identical industry and '0' otherwise. The second, termed 'related industry,' is coded as '1' if the firms operate in related industries and '0' if they do not. The delineation between related and unrelated industries was determined through the analysis of the Standard Industrial Classification (SIC) codes.

Furthermore, we included a dummy variable to identify whether the acquiring company operates in the manufacturing sector, thereby excluding firms engaged in services, trade, or resource extraction. This classification is consistent with the categorization approach delineated by Pinto et al. (2017). At the firm level, we controlled the acquiring firm's size, employing the firm's total assets as a proxy. This is predicated on the argument that larger firms often possess greater financial capabilities but also face more intricate bureaucratic challenges (Haleblian et al., 2009).

Lastly, to account for potential variations attributed to temporal and geographical factors, we included controls for the acquiring country and the year of acquisition. Dummy variables were constructed for each country to indicate their inclusion or exclusion in the regression equation.

RESULTS

Table 2 indicates the descriptive statistics of our study:

Table 2. Descriptive statistics.

Variable	No.	Mean	Std. Dev.
Ownership acquired	3,577	80.077	28.893
Corruption control	3,577	-0.226	0.584
Economic freedom	3,577	59.635	7.656
Political stability	3,577	-0.540	0.611
IESE — Corruption	3,577	1.349	3.021
IESE — Economic freedom	3,577	1.301	2.514
IESE — Political stability	3,577	1.241	2.291
Country experience	3,577	0.535	1.492
Assets (millions of USD)	3,577	32.488	161.054
Same industry	3,577	0.384	0.487
Industry relatedness	3,577	0.597	0.490
GDP (natural log)	3,577	27.183	1.524

We depict the correlations between our variables in Table 3. It is possible to analyze the correlations present in the variables of interest in the study. There is a moderate correlation between economic freedom and corruption control, although not alarmingly high. The correlation between political stability and corruption control is weak. The correlation between political stability and economic freedom is negligible. The experiences, among themselves, correlate greatly as they are a product of the number of acquisitions performed by the acquiring firm. For this reason, they were not used in a single model since the purpose of this research is that a concept can be used in three different forms of experience, always focusing on a similar context. It is also noteworthy that the correlation between the moderating variables of the study is relatively high, identifying that they operate similarly, both from an empirical point of view and a conceptual point of view.

Table 3. Correlations.

Variable	1	2	3	4	5	6	7	8	9	10	11
Ownership acquired	1										
Corruption control	0.081	1									
Economic freedom	0.080	0.686	1								
Political stability	0.021	0.439	0.144	1							
IESE — Corruption	-0.116	-0.048	-0.060	-0.008	1						
IESE — Economic freedom	-0.092	-0.029	-0.047	-0.003	0.891	1					
IESE — Political stability	-0.077	0.005	-0.019	0.004	0.780	0.823	1				
Country experience	0.008	-0.036	-0.063	0.000	0.680	0.712	0.658	1			
Assets (millions of USD)	-0.101	-0.031	-0.026	-0.043	0.112	0.142	0.133	0.055	1		
Same industry	0.060	-0.062	0.011	-0.015	-0.069	-0.08	-0.07	-0.016	0.007	1	
Industry relatedness	0.094	-0.023	0.026	-0.014	-0.078	-0.074	-0.07	-0.027	-0.036	0.649	1
GDP (natural log)	0.016	-0.175	-0.368	-0.223	0.009	0.028	0.017	0.109	0.015	-0.067	-0.041

Note. Correlations greater than 0.190 were significant at $p < 0.050$.

Table 4 elucidates the multiple regression analyses conducted to investigate the direct effects posited by Hypotheses 1, 2, and 3. Model 1 serves as the baseline, incorporating only the control variables. Within this model, the p-values for assets, related industry, and the acquirer's industry are statistically significant, falling below the alpha level of 0.05. The coefficients suggest that the variables of related industry and acquirer's industry exert more substantial predictive power compared to other variables included in this model. The model's R^2 value indicates that 16.4% of the variance in the dependent variable is accounted for by the predictors in Model 1.

Table 4. Regression model.

	Model 1			Model 2			Model 3			Model 4		
	Coef.	Std. Error	p-value	Coef.	Std. Error	p-value	Coef.	Std. Error	p-value	Coef.	Std. Error	p-value
Corruption control				2.544	0.811	0.002						
Economic freedom							0.251	0.065	0.000			
Political stability										1.64	0.769	0.033
Country experience	-0.065	0.309	0.835	-0.051	0.309	0.869	-0.026	0.309	0.933	-0.079	0.309	0.798
Assets (millions of USD)	-0.015	0.003	0.000	-0.015	0.003	0.000	-0.015	0.003	0.000	-0.015	0.003	0.000
Same industry	0.018	1.227	0.988	0.234	1.227	0.849	0.125	1.224	0.919	0.061	1.226	0.96
Industry relatedness	3.649	1.23	0.003	3.623	1.228	0.003	3.573	1.227	0.004	3.689	1.229	0.003
GDP (natural log)	0.065	0.322	0.840	0.266	0.327	0.416	0.523	0.342	0.127	0.200	0.328	0.541
Acquirer industry	5.606	1.353	0.000	5.514	1.352	0.000	5.688	1.351	0.000	5.598	1.353	0.000
Target industry	-1.138	1.367	0.405	-1.135	1.365	0.406	-1.119	1.364	0.412	-1.072	1.367	0.433
Acquirer country (dummy)	Included			Included			Included			Included		
Year (dummy)	Included			Included			Included			Included		
n.	3,577			3,577			3,577			3,577		
F	10.28			10.3			10.38			10.21		
Prob. > F	0.000			0.000			0.000			0.000		
R-squared	0.164			0.166			0.168			0.165		
Adj. R-squared	0.148			0.15			0.151			0.149		
Root MSE	26.668			26.634			26.616			26.654		

Note. The dependent variable is ownership acquired in the acquisition. All VIFs were below the threshold of five.

Hypothesis 1 posits a relationship between corruption control and the selection of ownership structures. In Model 2, variables such as corruption control, assets, related industry, and the acquirer's industry emerged as statistically significant predictors, with p-values below the alpha level of 0.05. The R^2 value for Model 2 suggests that 16.6% of the variance in the dependent variable is explained by the model's predictors. In alignment with these findings, Hypothesis 1 is supported: greater control of corruption correlates positively with greater ownership in acquisitions, in other words, higher corruption levels in the host country decrease the extent of ownership acquired.

In relation to Hypothesis 2, which was analyzed in Model 3, the variables — economic freedom, assets, related industry, and acquirer's industry — attained statistical significance. The R^2 value indicates that these predictors account for 16.8% of the variance in the dependent variable. The results lend empirical support to Hypothesis 2, suggesting that increased levels of economic freedom are positively associated with the extent of ownership acquired by multinationals.

Lastly, Hypothesis 3, tested in Model 4, posits a positive relationship between political stability and the choice of ownership. The R^2 value indicates that the model accounts for 16.5% of the variance in the dependent variable, indicating the assertion that greater political stability facilitates the acquisition of higher ownership.

Table 5 is designed to examine the moderating effects posited in Hypotheses 4, 5, and 6. Model 5 specifically investigates Hypothesis 4, which posits that institutional experience in contexts analogous in terms of corruption would exert a negative moderating effect on the relationship between corruption and the selected degree of ownership. Contrary to the expectations set forth in Hypothesis 4, the p-value for institutional experience within a comparable corruption control framework in Model 5 is both significant and positive.

Similarly, Model 6 scrutinizes Hypothesis 5, which contends that institutional experience in like contexts negatively moderates the correlation between economic freedom and the degree of ownership. The outcome here aligns with the findings from Hypothesis 4, substantiating a significant relationship but with a moderating effect that diverges from the projected expectations in Hypothesis 5.

Model 7 evaluates Hypothesis 6, which asserts that institutional experience in settings with similar political stability negatively moderates the relationship between political stability and ownership. The coefficient for the variable of institutional experience within a context marked by analogous political stability is statistically significant in this model. Further, the R^2 value reveals that the independent variables account for 18.1% of the variance in the model under consideration.

Table 5. Regression with interaction models.

	Model 5			Model 6			Model 7		
	Coef.	Std. Error	p-value	Coef.	Std. Error	p-value	Coef.	Std. Error	p-value
Corruption control	0.668	0.893	0.454						
Economic freedom				0.139	0.072	0.054			
Political stability							-0.069	0.849	0.935
IESE — corruption	-1.539	0.274	0.000						
IESE — Economic Freedom				-6.170	1.335	0.000			
IESE — Political stability							-1.059	0.325	0.001
Corruption control x Institutional experience — Corruption	0.889	0.268	0.001						
Economic freedom x Institutional experience — Economic freedom				0.069	0.023	0.003			
Political stability x Institutional experience — Political stability							1.258	0.281	0.000
Country experience	2.702	0.417	0.000	2.740	0.436	0.000	1.691	0.408	0.000
Assets (millions of USD)	-0.013	0.003	0.000	-0.012	0.003	0.000	-0.012	0.003	0.000
Same industry	-0.148	1.209	0.903	-0.421	1.214	0.729	-0.214	1.216	0.860
Industry relatedness	3.031	1.210	0.012	3.248	1.214	0.008	3.257	1.219	0.008
GDP (natural log)	-0.207	0.326	0.525	0.127	0.341	0.710	-0.071	0.327	0.829
Acquirer industry	4.940	1.332	0.000	5.088	1.337	0.000	5.357	1.341	0.000
Target industry	-0.616	1.344	0.647	-0.613	1.350	0.650	-0.939	1.354	0.488
Acquirer country (dummy)	Included			Included			Included		
Year (dummy)	Included			Included			Included		
n.	3,577			3,577			3,577		
F	12.010			11.510			11.070		
Prob. > F	0.000			0.000			0.000		
R-squared	0.193			0.187			0.181		
Adj. R-squared	0.177			0.171			0.165		
Root MSE	26.206			26.313			26.407		

Note. The dependent variable is ownership acquired in the acquisition.

The corresponding interaction plots are illustrated in Figure 1, offering an opportunity to juxtapose the intensity of the relationships in the moderation of the three hypotheses. In each case, the actual outcomes contradicted the initial projections, amplifying rather than attenuating the ratios. Additionally, a marked diminution in the impact of the independent variables is observable in the absence of prior institutional experience.

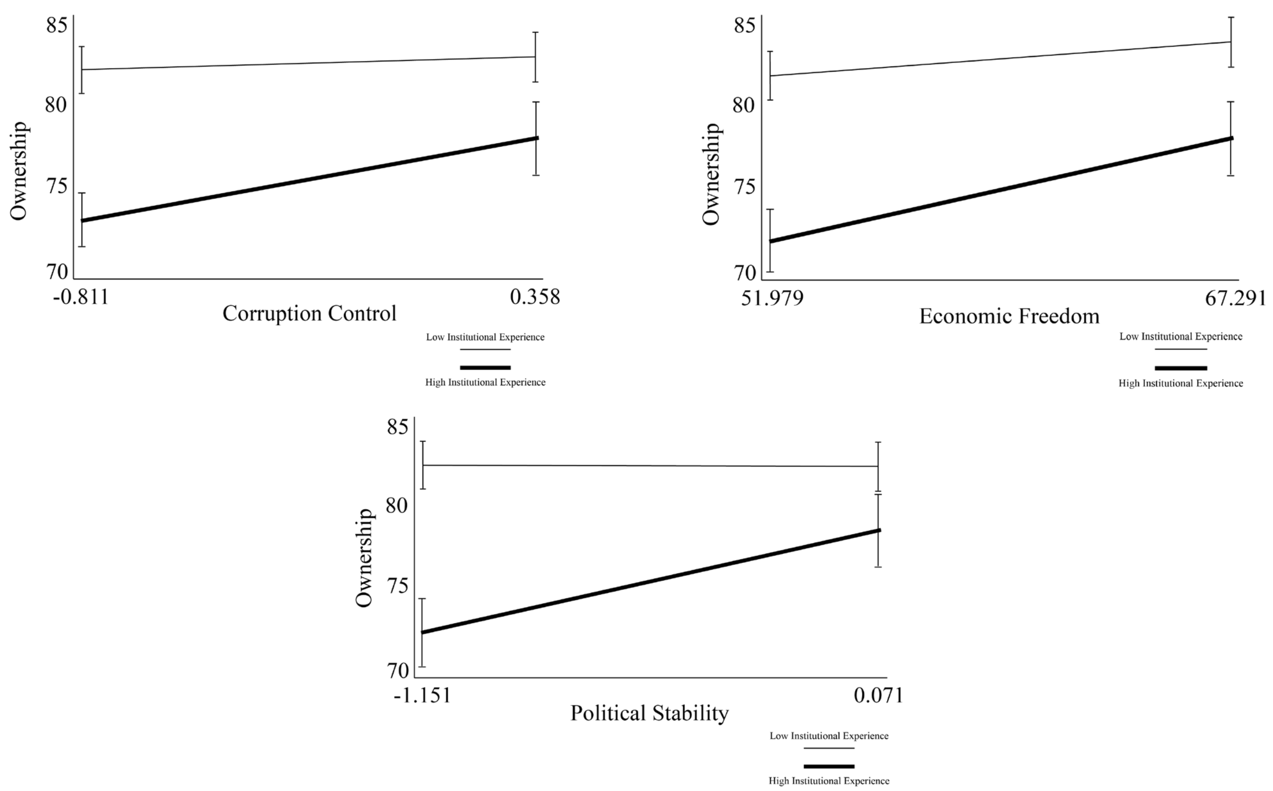

Figure 1. Moderation plots.

DISCUSSION

This study approaches the theoretical conceptualization of international experience and its repercussions in the theoretical scope. The literature indicates that international experience, in general, is considered of great value when dealing with transactions between countries with different levels of corruption, which can be decisive for the conclusion of the deal (Malhotra et al., 2010). Experience shapes a process in stages that culminates in entering a foreign market (Guillén, 2003). The accumulation of experience through previous operations can be an advantage in the international scenario (Duanmu, 2014). Generally, company-level experience will positively affect internationalization (Love et al., 2016).

Experience generates knowledge and is an essential resource for a company's internationalization process (Casillas et al., 2009; Majocchi et al., 2005). Experience in new situations and contexts leads to the firm's organizational learning, creating a greater knowledge base and technological capabilities (Barkema & Vermeulen, 1998). Companies with solid international experience can have easier access to information channels thanks to a network of commercial relationships that generally allow them to explore positive externalities (Johanson & Vahlne, 2009); Mutinelli & Piscitello, 1997). We explore that companies learn from their acquisition experiences, which can help in the performance of subsequent acquisitions (Li et al., 2016). The advantages of ownership, which are specific competitive advantages of the company, are created in several ways, including by the international experience of the company (Brouthers et al., 1996).

This knowledge based on experience, either one's own or the network's, can change the company's subsequent strategy and attitudes toward risk-taking. As companies accumulate international experience, they develop a capacity to enter foreign markets and overcome obstacles and restrictions in the different host countries (Guler & Guillén, 2010). It is understood that companies will invest in riskier countries only after accumulating sufficient experience and knowledge (De Villa et al., 2015; Nielsen et al., 2017). Additionally, the geographic extension and intensity of exports are linked to the company's international experience (Love et al., 2016). Still, market conditions, while still heterogeneous, must be similar to make this knowledge useful. When the difference between countries is high, previous experience is not very useful. More resources will be needed in each project, restricting the number of countries in which the multinational company can invest (Krug & Falaster, 2022).

Cho and Padmanabhan (2005) show that the company's international experience can influence the choice of foreign ownership mode in two ways: leading the company to take on itself the risks and management responsibility associated with total ownership or leading the company to deal better with the costs and uncertainties associated with accepting equity partners. Specific decision-making experiences can be considered important sources of ownership advantages (of assets and minimization of transaction costs) for the company (Padmanabhan & Cho, 1999).

The international experience can also be seen as a mechanism that reduces the internal uncertainty that limits the choice of a way to enter the foreign market of companies (Laufs & Schwens, 2014; O'Farrell & Wood, 1994). The opportunity to reduce uncertainty and, therefore, the probability of a more complex strategy associated with greater involvement of resources by the investor increases with international experience (Mutinelli & Piscitello, 1997), as companies develop organizational capabilities that allow them to assume greater commitments with foreign investment (Dikova & Witteloostuijn, 2007). Firms with high levels of international experience are more likely to choose equity entry modes when asset specificity is low, suggesting a direct effect of international experience on equity entry mode (Maekelburger et al., 2012). As companies with greater international experience face fewer disadvantages of local knowledge, the need for a local partner to lessen the responsibilities of foreigners decreases, and the desire for full ownership increases (Dikova & Witteloostuijn, 2007). Therefore, it is considered that the participant's degree of control of a foreign commercial entity must be positively related to the company's accumulated international experience (Anderson & Gatignon, 1986).

It is important to understand that experience in previous acquisitions and similar institutional conditions help perceive and reduce risk and uncertainties in international acquisitions (Malhotra et al., 2010). Companies with more experience can better deal with the risks of foreign business management so they may prefer full ownership or high ownership in acquisitions (Liou et al., 2016). A multinational company's previous experience with poor-quality institutions will affect its perception of the inherent risks of investing in other countries

In an environment where corruption generates a high degree of uncertainty (Goel & Ram, 2013), companies tend to opt for a lower degree of ownership in international acquisitions (Anderson & Gatignon, 1986; Fuentelsaz et al., 2020). This choice is because they understand that it is necessary to learn from the local partner the rules and procedures of a successful company in the host country. However, experience in similar situations tends to mitigate uncertainty (Benito & Gripsrud, 1992; Lu, 2002; Mutinelli & Piscitello, 1997).

Economic freedom has a strong positive relationship with FDI investments from multinationals (Arslan et al., 2015), but economic freedom is accentuated when the government has less power over the economy (Zhang et al., 2017). With less government power in the economy and international barriers, companies tend to opt for greater ownership in their international acquisitions (Cheng, 2008). However, for a company with experience in similar locations, it is assumed that it has acquired enough experimental knowledge to know how to behave and overcome some difficulties encountered in the acquisition process.

Political stability can reduce the uncertainty of investing in a nation (Abdelkader, 2015). With a scenario of political stability and, consequently, little uncertainty, companies tend to opt for a greater degree of ownership in international acquisitions (Anderson & Gatignon, 1986; Fuentelsaz et al., 2020). However, it has been theorized that experience mitigates uncertainty (Cho & Padmanabhan, 2005; De Villa et al., 2015; Jiang et al., 2020).

The specific institutional experience, whether in corruption control, economic freedom, or political stability, should not be analyzed as a mere variable but as a complex concept. When discussing similar contexts, it was necessary to open the range of experiences for corruption control, economic freedom, or political stability as variables that have a certain correlation. However, it is reiterated that it is necessary to understand the concept of experience to proceed with its unfolding.

Contrary to the initially expected, the present study demonstrated that institutional experience does not mitigate the effects of the institutional environment on the choice of ownership. Some factors can explain these results. From what can be evaluated according to the results, companies have an even greater tendency to take the institutional environment into account when carrying out international acquisitions in situations where they already have some similar experience.

The first possibility is that companies already experienced in troubled institutional environments can better make sense of the environmental challenges. Hence, companies that have experience with difficult institutional environments tend to choose entry modes that minimize the risks associated with investing (Anderson & Gatignon, 1986).

The second possibility is that companies with experience in similar environments can use their experience to choose a more effective entry mode for a new investment. A company's experience in a particular country can help it choose the best entry mode in another country with similar characteristics (Goel & Ram, 2013). If the best entry mode is to reduce ownership at first, the company will tend to repeat this in the following investments.

It would be expected that companies with greater experience in similar contexts have greater knowledge to act in new contexts with the same problems. However, the greater the experience in similar contexts, the greater the relationship between aspects of institutional quality and the degree of ownership. As confirmed in Hypotheses 1, 2, and 3, companies tend to decrease the acquired property when there are more institutional inefficiencies. However, they tend to increase the acquired property when there is greater institutional quality. This result is quite consistent with other studies in the field (Anderson & Gatignon, 1986; Aybar & Ficici, 2009; Fuentelsaz et al., 2020; Pinto et al., 2017). However, the results indicate that the greater the experience, the more important the environment for the decision. This may indicate that more experienced companies in similar contexts perceive even more the need for a local partner to develop their businesses in situations of institutional inefficiencies adequately.

Furthermore, the company understands the problems that will be faced but does not have enough knowledge about such an environment to solve these problems alone. Institutional experience proves efficient in shaping a differentiated strategy to increase the chance of success in such a context. Thus, the greater the experience, the greater the analysis of the conditions of the destination country and the greater the relationship between institutional quality and the choice of property.

LIMITATIONS AND FUTURE RESEARCH AVENUES

There are limitations and potential future research agendas that this paper entails. First, the present study operationalizes international experience in a multifaceted manner, incorporating variables such as corruption control, economic freedom, and political stability. However, the conceptual boundaries of experience may need to be expanded to include other forms of knowledge and expertise. Second, while the research suggests a correlation between international experience and the firm's ownership choice in foreign markets, establishing a causal relationship requires further empirical scrutiny through studies that could solve issues of causal ambiguity such as exogenous shock studies. Furthermore, the development of an integrative model combining institutional theory, the resource-based view, and international experience can provide a comprehensive framework for understanding international strategic decisions of companies that present higher experience in similar contexts.

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