RON MAAS

Organizations and their external context

Impressions across time and space

Organizations and their External Context: Impressions across time and space

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Impressions across time and space

Organisaties en hun externe context:
Indrukken door tijd en ruimte

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PREFACE

To me, the process of finishing a dissertation feels a bit like getting married. Maybe it's because of a recency bias since I just got married, but I think there are a lot of parallels to be found. Both are celebrated milestones in a lifelong trajectory, yet the actual differences between pre- and post-milestone are more practical than substantial. Both involve headache-inducing paperwork to finalize. Both result from getting to know a particular topic (or person) as well as anyone in the world. And both leave me completely convinced that the choices that brought me to this place are the right ones. The main difference is that while getting married is strictly a two-person job, finishing this dissertation involved a lot more people. As such, there are several people I would like to thank that made this possible.

First and foremost, I am extremely grateful to my two co-promoters, Professor Pursey Heugens and Professtor Taco Reus. Ever since I was in my early MPhil days, even before I started my PhD, they have been with me every step of the way. Thank you for guiding me towards promising research topics when I was enthusiastic about everything, while still giving me the freedom to pursue my own interests. Thank you for the mentorship and always being prepared to help me with whatever I needed. But most of all, thank you for all the talks and meetings we had, not just our academic discussions which nearly always led to new ideas and insights, but all the other stuff as well: talking about the latest episodes from Game of Thrones, what our better halves have been up to, or the latest developments in the sweet science. I am very glad that we have built such a strong relationship that goes beyond professional goal achievement, and hope we can continue to do so indefinitely.

I also want to thank several of my colleagues and co-authors that helped make this possible. Agnieszka, my office wife, thank you for putting up with me all those years, and helping to vent all the frustrations that are inherent to academia. Ilaria, my meat buddy, thank you for all the good talks that we had and making sure I ate enough steaks. Arjen, my beer buddy, thank you for all the great discussions we had, where we never failed to conceptualize at least five new papers while drinking as many beers. Omar, Stefan and Timo, my partners in crime from day one, thank you for all the shenanigans and the good times we had. And of course Riccardo, so similar to me that you could have been my brother, thank you for more things than I could ever list here, and I am really glad we've become such close friends. I also want to thank all the other great people both inside and outside of RSM for all the insights and memories, including: Alina, Chris, Guus, Hendra, Jasmien, Jiachen, Jitse, Lance, Laura, Michael, Michel, Mirko, Radina, René, Tatjana, Thijs and everyone else.

Lastly, I of course want to thank my wife and my parents, who were always there when I needed them. Nothing was ever too much to ask for you, and you are the true bedrock that made all this possible. Thank you for your love, your understanding, and your unconditional support throughout the years.

Ron Maas
April, 2019

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CHAPTER 1

ORGANIZATIONS AND THEIR EXTENRAL CONTEXT: IMPRESSIONS ACROSS SPACE AND TIME

General introduction

We are all products of our environment. Every interaction we have, whether it's through individuals, groups or organizations, plays a role in shaping our identity and outlook. Our surroundings dictate the type of behavior that is expected or tolerated, the ideas we are exposed to, and the scope of decisions available to us. Our context predisposes us towards making certain choices and decisions, and traversing particular paths. As a result, people frequently exhibit commonalities based on which external influences they have been exposed to. But at the same time, individuals within a given society are not homogenous clones, and differences across people exist. In effect our contexts prescribes a particular set of traits and behaviors, but does so in a non-binding way. For example, the majority of fans for a particular sports team stem from their local community, as people raised within this community are more predisposed towards supporting their local team. Without the role of context, fandom would have a more homogenous distribution across the globe. Yet not everyone in the local community will be a supporter of the team, leaving room for freedom in the choices that are made, given a particular set of options.

When it comes to the role of context, organizations are no different. Organizations are positioned in a broader environment that dictates their available opportunities, restrictions, and pathways to success (DiMaggio & Powell, 1983). This broader environment goes beyond the role of an organization’s direct competitors, consumers, or industry. The state of the economy, the local laws and customs, the availability of certain resources or skilled laborers, and cultural norms are all examples of external factors that can have a significant impact on organizational decision making and how these decisions turn out. As a consequence, strategic decisions that result in improved organizational performance in one setting can have the opposite effect in another setting. For example, the long-term orientation within a society or its intellectual property protection can be influential in how much organizations should invest in research and development (Chrisman & Patel, 2012; Owen-Smith & Powell, 2001), while the risk tolerance of a society will play a role in determining how the stock market will respond to internationalization plans (Cavusgil & Knight, 1997). A thorough understanding of how the environment affects organizations is therefore critical to evaluating organizational decision making and their outcomes.

The majority of studies approach the role of context from the perspective of the organization, through identifying the strategies that best align with the organizations’ environment. But context also influences organizations through dictating the scope of decisions that organizations have available to them, and (dis)-incentivizing certain decisions by facilitating or impeding various choices. (DiMaggio & Powell, 1983; Weber & Glynn, 2006; Zucker, 1983). Yet studies frequently limit their treatment of this mechanism as a limitation of their findings or a potential avenue for future research. This is understandable, as singular studies can rarely engage in the cross-contextual analyses that are necessary to account for all contextual influences. However, actual follow up studies are rare, and citing prior findings without acknowledging the contextual limitations unfortunately does occur. Implicitly, there appears to be an underestimation of how context constrains organizational decision making.

This poses certain challenges in our field. When the incentives for organizational decisions vary across countries, empirical findings are no longer generalizable without an understanding of how this would affect the results. In addition, the environment generally changes over time, and omitting the role of context can cayse misleading future suggestions even for the originally studied setting. Finally, neglecting the role of context can lead to biased results, as it can cause empirical findings to be misattributed to the wrong underlying causes and mechanisms.

In this dissertation, I therefore set out strengthen and develop our existing theorizing by generating insights that emphasize how the external context affects strategic decision making across organizations. While most studies that do examine contextual influences account for them from a contemporary perspective, these conditions change over time, and past conditions also continue to exert a lasting influence on how organizations behave (Marquis & Tilcsik, 2013; Stinchcombe, 1965). For comprehensiveness I therefore chose to account for contextual influences from both current and past conditions in my dissertation. By doing so my, work primarily draws upon and contributes to two complementary theoretical lenses: environmental imprinting theory from a historical perspective, and institutional theory from a contemporary perspective.

According to imprinting theory, when organizations are established they tend to develop attributes that reflect the predominant characteristics of the period they were founded in, through a process known as imprinting (Marquis & Tilcsik, 2013; Stinchcombe, 1965). This occurs because of their liability of newness, which is the notion that newly founded firms suffer some disadvantages when comparised to established firms (Freeman, Carroll & Hannan, 1983). First, they have limited capabilities, resources and connections available to them, since these all take time to develop. Second, since they have no prior operational history, they still lack reputation and legitimacy in the broader market (Singh, Tucker, House, 1986). Other stakeholders will therefore not yet know what to expect from the organization, and their lack of prior accomplishments makes them a risky investment. Moreover, recently founded organizations operate in a context where they might lack experience, and are therefore potentially unfamiliar with the optimal way in which to act and behave.

Mirroring the practices of reputed incumbents helps organizations in such circumstances to overcome several of these problems: when organizations conform to expectations it will lower the perceived risk factor of the organization in the eyes of other stakeholders, making them more willing to engage in collaborations and partnerships. Simultaneously, copying the perceived best practices for a given context can help organizations to reduce their own uncertainty through vicarious learning (Haveman, 1993). But after organizations have chosen a structure to adapt, decided which capabilities they wish to developed, and have settled in their routines, they become slow to adjust (Levinthal & March, 1993; Nelson & Winter, 1982; Szulanski, 1996). Change tends to be difficult, time-consuming and costly for organizations, so the initial decisions can have lasting consequences on organizational outcomes. As a consequence, imprinting theory predicts that the time of organizational founding is one of the most influential periods for evaluating how organizational outcomes are conditioned by their surroundings.

Complementary to imprinting is institutional theory, a rich body of literature that incorporates contemporary external factors in its theorizing. According to institutional theory, society is organized through man-made rules and laws that are known as institutions. These institutions constitute a set of behaviors or outcomes that are deemed as appropriate, and organizations that abide by these norms are conferred legitimacy (DiMaggio & Powell, 1983; Meyer & Rowan, 1977, Scott, 1987). Organizations that are granted legitimacy are rewarded with resources and opportunities, while those that lack legitimacy are penalized (Toma, Dubrow & Hartley, 2005), and so the success and survival of organizations is contingent on the level of legitimacy they manage to achieve (Meyer, Scott & Deal, 1981). Due to this dependency, institutions can (dis)-incentivize certain behaviors, and generate conformity and homogeneity across different organizations. This homogeneity can subsequently serve as a useful tool for predicting organizational behavior based on the institutions in their context.

Prior work in this field has shown contextual influences that stem from a variety of sources, most commonly through differences across cultural norms (Hoecklin, 1995; Hofstede, 1983; Shenkar, 2001). But other characteristics of the external environment also affect the appropriateness of certain organizational decisions, such as resource scarcity (Yasai-Ardenkai, 1989), institutional quality (Oliver, 1997) or institutional complexity (Greenwood, Raynard, Kodeih, Micelotta & Lounsbury, 2011). Research has shown that organizations need to adapt their decision making to the particulars of the environment they are operating in (Oliver, 1991), and that their strategic decisions tend to be more successful when they do so (Clemens & Douglas, 2005).

This notion of adapting organizational decision making to the circumstances of the environment is particularly important in the context of international business (IB). This field of study attempts to answer the question how organizations can successfully manage their operations across different countries. A key premise of this field is that different contexts require different approaches in order to be successful, and that differences in context can be difficult to overcome when internationalizing (Ghemawat, 2001; Johanson and Vahlne, 1977). This led to the mapping of variations in business settings and practices across countries (Hofstede, 1983), and gave rise various operationalizations of cross-national distance (Berry, Guillen and Zhou, 2010).

Building on these ideas identified the need for theorizing about emerging market economies (EMEs) that was distinct from the common Western-centered approach (e.g. Arnold & Quelch, 1998; Khanna & Palepu, 1997). This was driven in part by the increasing prevalence of EMEs on the global market space, which ran contrary to the expectations of prior IB literature (Bonaglia, Goldstein & Matthews, 2007; Khavul, Pérez-Nordtvedt & Wood, 2010; Tsai & Eisingerich, 2010). According to classical theorizing, firms from EMEs were supposedly disadvantages vis-à-vis firms from developed markets, due to differences in economics, institutional, educational and technological factors that would render them uncompetitive (e.g. Dunning, 2001; Johanson & Vahlne, 1977). But empirical evidence presented a different outcome, and firms from EMEs are now some of the biggest players in the global market (UNCTAD, 2015). This has led to the development of strategies that are geared towards specifically to doing business in EMEs, but EMEs are frequently grouped together will little regard for their underlying differences. As noted by Ramammurti (2009), this was especially jarring for the emerging market context, as countries that belong to this category are frequently nothing alike, and diverge widely on factors such as cultural background, political systems, economic growth and quality of institutions. To shed light on the consequences of this heterogeneity across various emerging markets, I therefore looked at how different country level effects generated differences in firm internationalization behavior for my first project.

First project - Differences in the emerging market context

My goal for this project was to enhance the literature on the rapidly growing internationalization of EMEs in order to better understand the discrepancy between classic internationalization theorizing and current empirical findings. Most of the prior work in this area emphasizes the factors that distinguish EMEs from more developed economies. However, several EME firms are enjoying considerable international success while others are less fortunate, and the prevalence of emerging markets in the global strongly varies. Much less work has been done on explaining these different outcomes across EMEs. My interest lied in unpacking why this was the case. I therefore focused my analysis on identifying the underlying factors that influence the participation of EMEs on the international market, and that could lead to a differentiation in internationalization behavior both across and within countries.

To identify the factors that influence participation levels, I centered my attention on the external conditions that facilitate the internationalization of organizations. Prior work in this area mainly draws on contemporaneous conditions as explanatory factors for internationalization behavior (e.g. Luo & Tung, 2007; Ramamurti & Singh, 2008; Yamakawa, Peng & Deeds, 2008). But while contemporary factors certainly comprise a significant part of explaining firm internationalization, they are highly similar for firms that originate from the same country. So while contemporaneous factors can explain differences across countries, they lack a differentiating effect for firms from the same country that could explain heterogeneity in internationalization behavior.

But according to imprinting theory, differences in founding conditions can contribute to explaining heterogeneity in internationalization behavior irrespective of contemporary conditions. I therefore examined historical conditions that might exert a lasting impact on the internationalization behavior of firms in the future. Since firms from EMEs tend to face large barriers to internationalization (Khavul et al., 2010), I focused on the main factors that hinder internationalization behavior. Based on findings from the OECD (OECD, 2008), there are four main barriers to internationalization: a lack of capabilities, limited resources, difficulty with identifying cross-border business opportunities, and unfamiliarity with foreign business practices. I therefore mapped these four dimensions to four variables that would not only affect these barriers, but also leave a lasting impact on organizations.

For a lack of capabilities, I looked at the availability of skilled labor in the market, as skilled employees allow organizations to develop the more complex capabilities that are needed for internationalization (Glaister, Lu, Sahadey & Gomes, 2014). Since the way jobs are executed within an organization is often highly dependent on the first person to hold a particular position, starting a firm with highly skilled employees is crucial for maintaining a high potential skill ceiling (Burton & Beckman, 2007).

I operationalized limited resources as the levels of capital available in the market, i.e. how easily firms can gain access to new capital. Having capital available is necessary for organizations as the initial stages of internationalization tend to be capital-intensive and unprofitable. Having easy access to capital also incentives organizations to start using external capital from an early age, which has the side-effect of building relations and trustworthiness, thereby facilitating even more access to capital in the future (Uzzi, 1999).

I looked at the demographic make-up of the country as a means to overcome unfamiliarity with foreign business practices, in particular how heterogeneous the population was. Being located in a heterogeneous environment increases the chance that organizations will employ a diverse workforce, which brings a wider set of perspectives and viewpoints to the organization (Johnson, Lenartowicz & Apud, 2006). A diverse population also forces organizations to develop capabilities adapt to a more varied demand from customers. The expertise that an organizations develops in this way can then be leveraged abroad.

Lastly I took the presence of foreign multinationals as an opportunity to identify business opportunities abroad, as through knowledge spillover effects incumbents could learn more about potential opportunities in the MNE home country. However, foreign MNEs generally enjoy superior resources and reputation, and are better positioned to attract the local resources needed for internationalization process than newly founded firms can (Hennart, 2012). While incumbent firms can benefit from foreign MNE knowledge spillovers as they might have developed their own local network to resist resource appropriation, newly founded firms are not in a position to do so, and foreign MNE presence can actually limit their opportunity to internationalize. Moreover, foreign MNEs also frequently bring technological knowledge spillovers to EMs, and by using their superior knowledge of the local market, newly founded firms can actually be incentivized to remain domestic in order to exploit this advantage (Görg & Strobl, 2002).

My findings for this project, based on nearly 3000 firms from 21 emerging markets over 20 different founding years (1993-2012), show support for the suggested outcomes listed above. This demonstrates that founding conditions have a significant effect on predicting the future internationalization behavior of organizations. More specifically, I show that founding conditions interact with the barriers to internationalization that firms experience, which helps to explain the differences we see in emerging market internationalization behavior, both across and within countries.

Second project - Founding munificence and future performance: the silver spoon

My first project demonstrated how external founding conditions can have a lasting impact on the internationalization behavior of firms. For my second project I was interested in other means through which founding conditions could have an enduring effect on organizations. The motive behind this project was initially driven by phenomenological observations, as both discussions with entrepreneurs and anecdotal media evidence from larger firms pointed towards one particular founding condition that was indicative of their future success: experiencing hardship during their time of founding.

The basic premise deduced from these observations was that when organizations experience difficult starting conditions, it would serve as a good preparation for any hardships the organizations might face in the future (Swaminathan, 1996). This has two underlying causes. The first is that difficult times force organizations to develop effective capabilities simply to survive. When faced with an unforgiving environment, efficiency and optimization become key factors that are necessary for firm to survive. In the future, organizations can use these capabilities and exploit them to realize superior returns, especially when faced with renewed hardships. Conversely, firms that were found during more munificent times are more likely to be born with a so called silver spoon in their mouth. A more forgiving environment allows firms to be less efficient and optimized, thereby potentially developing capabilities that disadvantage them in the future (Brittain & Freeman, 1981). leaving them ill-prepared for weathering rougher times.

The second mechanism through which founding munificence affects future performance is that hazard rates are much higher during harsher times. This can partially be explained due to the type of firms that are founded during these times: low munificence generally correlates strongly with increased unemployment, and more newly unemployed people attempting to secure an income by starting a company. However, these people tend to become entrepreneurs out of necessity rather than identified business opportunities. Therefore, they are typically not the ideally situated to become successful entrepreneurs.

But more generally, surviving in harsher times is simply more difficult to achieve. This is especially true for newly founded firms, as they frequently have a limited buffer to overcome down periods, and their inherent liability of newness exposes them to more risks. As a consequence, there is a strong selection effect stemming from founding conditions (DiMaggio and Powell, 1983; Freeman, Carroll & Hannan, 1983). Harsh founding conditions weed out organizations that try to incorporate less efficient or optimized approaches, whereas munificent founding conditions allow a variety of strategies to proliferate, with different levels of success.

To test the role of founding munificence on future firm performance, I looked at various founding conditions across the US. For this project I therefore took a more fine-grained unit of analysis than in the first project, as I conducted my analysis at the industry level within a single country. Within this context, I found support for my hypothesized effects: while harsh founding conditions are indeed more hazardous and result in higher rates of organizational failure, firms that do manage to survive them tend to perform better in the long run than firms that were founded during more munificent times. This observation holds true even when controlling for the selection effect that survivor bias might have on the quality of these firms. These findings support the hypothesis that the external founding conditions of organizations have a lasting impact on future firm performance. This finding lends further credence to the notion that when analyzing firm performance, there should be more concerned with accounting for environmental effects, not only from a contemporary perspective but a historical one as well.

Third project - The humanly devised external context

My first and second project used imprinting theory to analyze the role of historical context. In order to create a richer understanding of the interplay between organizations and their surroundings I dissected this interaction from a contemporary perspective for my third project. I therefore draw on institutional theory in accounting for the role of the current organizational context.

Using institutions to predict organizational outcomes is not a novel concept, and there is a plethora of studies in the literature that apply this approach. But institutions are incredibly varied and context-specific, which makes it difficult to iterate on prior findings and construct an overarching narrative. To tackle this issue I decided to conduct a meta-analysis in order to empirically aggregate findings across a variety of different contexts. By using the results of prior studies as single data points I am able to achieve a much larger scope than otherwise would be possible.

To limit the potential for confounding factors, I wanted to focus on the institutions that are the least opaque to organizations and the most homogenous within a context: the governing rules and laws in their environment. These formal institutions have the advantage of being codified, leading to fewer interpretations of their meaning, and generally provide little institutional complexity, as legitimate opposing institutions are rare. As a consequence, the effects of these institutions on organizations are likely to be more consistent than those from informal institutions such as cultural norms, who can cause more ambiguity and are generally less homogenously present in a given context.

One setting that is especially suited for this approach is that of mergers and acquisitions (M&As), an activity that globally consists of trillions of dollars on a yearly basis (Thomson Reuters, 2018). M&As clearly have an incredible impact on the economy through their sheer volume alone, yet the activity itself is still poorly understood, and prior attempts at studying this phenomenon on a meta-analytical level have led to inconclusive results. However, many studies do not account for the context in which deals were conducted, which could explain the variance in outcomes that individual studies are reporting. I therefore took prior studies as the basic data for this paper, and layered institutional data on top of that.

Particularly interesting about this context is that M&As are generally conducted with the premise of increasing shareholder value, yet there is little systematic evidence that they actually achieve this goal (King et al, 2004). One explanation for these findings is that M&As can be conducted with ulterior motives: as a means of expropriating shareholder wealth by transferring value from one entity to another (Dyck & Zyngales, 2004; Holderness, 2003). Many countries have adopted various institutions with the intent to inhibit these practices, and protect the shareholders of organizations from being expropriated (La Porta, Lopez-de-Silanes, Schelifer & Vishny, 1999). These institutions operate through imposing a set of boundaries on what organizations can and cannot do when conducting an M&A, and therefore directly affect organizational behavior. Yet even though such measures are common, we know very little about the actual effects these institutions have on organizational outcomes, and if they indeed generate positive results for M&As. This is the gap I aim to address with my third project. To determine if these institutions actually perform as intended and improve shareholder value, I examined how both M&A prevalence and performance are affected by different levels of shareholder protection,.

To study these institutions, I conducted a meta-analysis of over 93 papers harboring 385 effect sizes from that used 21 different countries as empirical settings. I enriched this data with the indices of anti-self-dealing laws and the anti-director rights, to my knowledge the most comprehensive measures available on shareholder protection levels across various countries. In my analysis, I found that stronger levels of shareholder protection reduce the number of M&As that are undertaken. This is not unexpected, as the more difficult it is to initiate and complete an M&A, the lower their occurrence is likely to be. However, the results also show that higher levels of shareholder protection actually reduce the profitability of M&As, and thereby lower shareholder value. By constricting managerial freedom in order to hamper M&As that occur for selfish reasons, these institutions appear to have the unintended side-effect of limiting the capability of organizations to pursue more profitable acquisitions, potentially because these acquisitions tend to be riskier.

Implications

The research presented in this dissertation aims to advance our understanding of how organizations are affected by the external context they operate in. I do so by employing two complementary theoretical concepts across three studies. In the second and third chapters I make use of imprinting theory, and show some of the lasting consequences that organizations face as a result of the circumstances during their time of birth. In the fourth chapter I use institutional theory with a meta-analytical methodology to account for the contemporary conditions of the external context. Table 1.1 summarizes these three studies. Taken together, these studies jointly highlight the various means through which organizational decision making is contextually bound and guided. I will now elaborate on these studies more in depth in the subsequent chapters.

Table 1.1 Overview of studies in the dissertation

	Study 1	*Study 2*	*Study 3*
Topic	EME firm internationalization	Munificence based capability development	Shareholder value in M&As
Research Question	How do founding conditions (dis)-incentivize the future internationalization behavior of EME firms?	How do adverse founding conditions affect organization performance in the future?	How do institutions geared towards shareholder protection affect the M&A decisions made by organizations?
Temporal scope	Historical	Historical	Contemporary
Theoretical Lens	Imprinting theory	Imprinting theory	Institutional theory
Design	Two-limit tobit regression on 2813 firms from 21 EME countries founded between 1993-2012	Two-stage Heckman selection on 1818 firms with 9426 firm-year observations, based on firms founded across all 50 US states between 1997 and 2012	Meta-analytical regression analysis based on 288 effect sizes from 91 studies

DECLARATION OF CONTRIBUTIONS

Following the Erasmus Research Institute of Management's doctoral regulations, I hereby declare the contributions made to each of the chapters that make up my dissertation:

Chapter 1. This chapter was conducted independently by me, the author of this dissertation

Chapter 2. The work that is presented in this chapter was a joint effort by me and my two main supervisors: prof. dr. Pursey Heugens and prof. dr. Taco Reus. I conducted the literature review, gathered the data, ran the analyses and wrote the initial draft version. This draft has been iterated on multiple times, where I included comments and suggestions from my two promotors, and they also helped with writing sections directly.

Chapter 3. This work was done independently by me. I conducted the literature review, gathered the data, ran the analyses and wrote the paper. My co-promotors provided me with insights on the project during our meetings, but did not write on this paper.

Chapter 4. The work has been published in the Journal of Management Studies. Another PhD student helped with some of the data collection, but the majority of the data collection was done by me, as was the analysis. An earlier conceptualizing of this paper was devised by prof. dr. Taco Reus, but the paper has changed considerably during development, and has become the joint work and vision of the aforementioned prof. dr. Taco Reus, prof. dr. Pursey Heugens, and myself. I wrote the initial draft for this paper, which was iterated on and improved by all three of us.

CHAPTER 2

EMERGING MARKET FIRM INTERNATIONALIZATION: AN ENVIRONMENTAL IMPRINTING PERSPECTIVE

ABSTRACT

Most theories of internationalization stress contemporaneous factors to explain why firms engage in cross-border activities. We argue instead that the seeds from which internationalization paths develop are frequently sown much earlier. Building on imprinting theory, we argue that critical environmental conditions in a company's founding year – availability of skilled labor, access to capital, the presence of foreign MNEs, and population diversity – can lower barriers to later internationalization. While these factors are fairly stable in most developed markets, they tend to change much more in the dynamic context of emerging markets, making the latter an excellent natural laboratory for testing the influence of non-contemporaneous institutional factors. Using a sample of 2,813 emerging market firms founded in the post-1993 period across 21 different emerging markets, we find compelling support for the role of these environmental imprinting effects.

2.1 INTRODUCTION

Over the past decade, internationalization activities on a global level have seen a sharp decline. During the same time period, however, emerging markets (EMs) have actually increased their international participation. For example, currently nine of the 20 largest investor countries represent developing or transition economies (UNCTAD, 2015), and the emergence of global players such as Huawei from China, Infosys from India, and Grupo Bimbo from Mexico challenge the conventional views on the competitiveness of emerging market multinational corporations (EMNCs). This rise in EMNCs' internationalization levels is a surprising phenomenon, not only because it counters the globally declining trend of foreign direct investment (FDI), but also because firms from EMs tend to face higher barriers to internationalization compared to firms originating from developed economies (Khavul, Pérez-Nordtvedt & Wood, 2010).

The decision to internationalize generally has a major impact on firms' resource commitments and subsequent performance, and researchers have intensively scrutinized the factors that influence the initiation of locating firm activities abroad (Anand & Delios, 2002; Chan, Isobe & Makino, 2008; Lu & Beamish, 2001). Traditionally, researchers relied on the eclectic paradigm to explain the extent of firm internationalization (Dunning, 2001), which argues that the level of firms' cross-border activities increases when there are opportunities to exploit ownership, locational, or internalization advantages. However, the degree of internationalization pursued by EMNCs does not seem to fit this paradigm (Bonaglia, Goldstein & Matthews, 2007; Tsai & Eisingerich, 2010). A variety of alternative explanations have therefore been put forward to explain the drivers that influence the degree of internationalization pursued by this new class of international actors. Most of these explanations emphasize the role of contemporaneous conditions, such as resource deprivation in the home country (Luo & Tung, 2007; Ramamurti & Singh, 2008), state-driven expansionism (Horta, 2009; Luo, Xue & Han, 2010), increased involvement of foreign investors (Yamakawa, Peng & Deeds, 2008), and the exploitation of familiarity with institutional voids in other countries (Cuervo-Cazurra & Genc, 2008). While these perspectives partially explain the distinctive internationalization decisions of EMNCs, they favor contemporary factors and tend to overlook the impact of historical influences on firm internationalization, such as the conditions in firms' home countries at the time of founding (Jones & Khanna, 2006).

Due to the common emphasis on contemporary explanations in the internationalization literature, our understanding of how historical antecedents may influence later-stage internationalization is still limited. However, prior research has revealed that the political systems that are present during the founding of an organization influence that organization's target country selection when internationalizing (Kriauciunas and Kale, 2006), and that the degree of firm internationalization at founding instills an imprint that affects firm survival and growth in the future (Sapienza, Autio, George & Zahra, 2006). These initial findings suggest that imprinting theory, which argues that founding conditions can produce a lasting influence on the strategic decision making of organizations (Marquis & Tilcsik, 2013; Simsek, Fox & Healey, 2015; Stinchcombe, 1965), could help explain firms' internationalization behavior.

According to imprinting theory, the founding environment imprints firms by imbuing them with "sticky" capabilities (Szulanski, 1996), stable firm routines (Nelson & Winter, 1982) and rigid cognitive frames (Levinthal & March, 1993), which can persist even in the presence of negative feedback (Kilduff, 1992; Levinthal, 2003). Yet, while we know that founding conditions can affect foreign target selection (Kriauciunas & Kale, 2006) and post-internationalization survival and performance rates (Sapienza et al., 2006), we know little about how founding conditions influence firm internationalization itself. We address this gap by building on imprinting theory (Boeker, 1989; Le Mens, Hannan & Polós, 2011; Marquis & Huang, 2010; Simsek et al., 2015; Stinchcombe, 1965) to explain how country-level factors present at the time of firm founding influence the extent to which EMNCs will pursue internationalization in the future.

By applying imprinting theory to the internationalization decision, we provide a complementary explanation to accounts that stress contemporaneous factors. An explanation rooted in the imprinting perspective is particularly salient in the EM context, where environmental conditions are in flux, and firms frequently face a wide discrepancy between founding conditions and contemporaneous environments. A key factor in EM environmental change is the active involvement of the state in shaping the broader context that EMNCs face. For example, states can establish business schools, intervene to secure access to capital, or provide special access to foreign MNEs, thereby creating an environment that facilitates future firm internationalization (Knill & Lehmkulh, 2002; Milner, 1996; Spencer, Murtha & Lenway, 2005). We address this by developing an imprinting theory of EMNC internationalization, which proposes that states affect founding conditions – availability of skilled labor, access to capital, foreign business opportunities, and familiarity with foreign business practices – which affect perceived barriers to internationalization (OECD, 2008).

To test these imprinting effects, we created a unique database capturing the degree of internationalization of 2,813 publicly-listed EMNCs, founded across 21 EMs, in the dynamic period between 1993 and 2012. This period provides a particularly useful research context in which to test imprinting theory, as EMs have undergone rapid socio-economic and policy changes over these two decades, which resulted in a wide variety of founding conditions across countries and years (Luo et al., 2010; Ramamurti, 2008; Sauvant, 2005). The time frame we focus on has been marked by several major events that have had a particularly great impact in EMs, such as the collapse of the Soviet Union, the Asian financial crisis, the Mexican peso crisis (1994), and the great Argentinian depression (1998). Moreover, the post-1993 time frame also marks the period in which EMNCs first entered the global marketplace and in which rapid surges in their internationalization were recorded (Hoskisson, Wright, Filatotchev & Peng, 2013).

We intend to make three contributions with this study. First, we introduce imprinting theory as a complementary perspective to extant theories of firm internationalization. Specifically, we use imprinting theory to provide insight into the non-contemporaneous sources of variance in the degree of internationalization that occurs across EMNCs (Gammeltoft, Barnard & Madhok, 2010; Hoskisson et al., 2013). Second, we add to the EM literature by deepening our understanding of the uniqueness of the continuously changing and evolving EM context, and its effects on firm strategies (e.g. Hitt, Ahlstrom, Dacin, Levitas & Svobodina, 2004). Due to the volatility and dynamic nature of EM settings, founding conditions are more diverse, and imprinting effects are likely to be more pronounced than in developed markets. Third, we contribute to the imprinting literature by exploring whether deliberate state interventions in countries' institutional environments affect later-stage firm behavior. Whereas environmental imprinting effects are usually believed to result from accidental or coincidental circumstances, we show that state intervention can construct imprinting environments that are conducive to promoting future internationalization (Knill & Lehmkulh, 2002; Milner, 1996). We thus suggest the possibility of agency to purposefully create a context that bestows EMNCs with the characteristics they need to foster subsequent internationalization.

2.2 THEORY AND HYPOTHESES

Imprinting in EMNCs

Since the 1980s, EMs have increased their presence in the global economy through increased EMNC internationalization behavior (UNCTAD, 2015). However, EMNC internationalization behaviors appear to go against the grain of conventional internationalization theories. Diverging from the internationalization patterns observed in developed markets, EMNCs show a tendency to internationalize early, and to disregard incremental foreign growth steps (Bonaglia, Goldstein & Matthews, 2007; Tsai & Eisingerich, 2010). Furthermore, given the relatively high barriers to internationalization that EMNCs face, such as limited access to capital, lack of skilled employees, and unfamiliarity with foreign markets (e.g. Alfaro, Kalemi-Ozcan & Volosovych, 2008; Burgess & Steenkamp, 2006; De Santis, 1997), the predicted internationalization of EMNCs would be minimal. Yet, their international investments appear to be growing, even while those from developed market MNCs are declining (FDiIntelligence, 2015).

To explain these differences in internationalization behavior, the literature often characterizes EMNCs in terms of how their attributes differ from those of mature market multinationals. For example, EMNCs are claimed to be more resource-constrained (Luo & Tung, 2007), more diversified (Aybar & Ficici, 2009), more likely to bundle foreign intangible assets with local complementary assets (Hennart, 2012), and more strongly backed by national governments than their Western counterparts (Luo et al, 2010). However, EMNCs are not a homogeneous group of economic actors (Ramamurti, 2009), and they differ markedly from each other in terms of the strategic characteristics they exhibit, most notably in terms of their degree of internationalization. Previous research has suggested that this is largely due to country of origin effects (e.g. Bonaglia et al, 2007; Duysters, Jacob, Lemmens, & Jintian, 2009; Ramamurti, 2008), although the specific mechanism by which country of origin influences the extent of internationalization remains relatively unexplored.

One area where the influence of this country of origin effect is especially salient is the high degree of state intervention commonly present in this context (Fan, Wei & Xue, 2011). National governments in EMs generally have a large influence on the environmental context in which firms operate (Knill & Lehmkulh, 2002; Milner & Keohane, 1996), particularly with regard to EMNC internationalization (Wang, Hong, Kafouros & Wright, 2012). Many EM contexts are characterized by state-driven international expansion efforts, with governments providing either direct or indirect support for firms to venture abroad, in the pursuit of knowledge or resources (Horta, 2009; Luo et al, 2010).

But governments can also stimulate the internationalization behavior of firms through more indirect means. When firms are newly founded, they have a limited number of viable strategic options available to them due to their liability of newness (Freeman, Carroll & Hannan, 1983). As a consequence, the strategic choices that are developed are heavily influenced by the degree of fit with the environment at the time of founding, as nascent firms have to deal with contextual uncertainty and must establish legitimacy for themselves (Hannan & Freeman, 1977; DiMaggio & Powell, 1983). The founding environment thus plays an important role in determining the initial firm strategy and in setting the stage for the necessary development of capabilities (Boeker, 1989). By modifying the conditions that firms are exposed to at their time of founding, governments can therefore also influence internationalization behavior in a more indirect manner.

The initial strategies with regard to internationalization can play a particularly large part in determining the future of the firm (Knight & Cavusgil, 2004), as these strategies require substantive commitments from the firm towards the development of capabilities and resources that are difficult and costly to reverse. For example, these decisions may include the acquisition of specialized physical assets, the establishment of administrative structures, and the design of appropriate organizational systems (Levinthal, 2003). The implementation of such strategies therefore creates a partial lock-in for organizations, as these decisions tend to result in the development of enduring routines, capabilities, and cognitive frames that support their initial strategic direction.

Founding conditions that (dis)incentivize internationalization behavior are particularly salient in EMs, as EMs tend to have large barriers to internationalization (Khavul et al., 2010). Barriers to internationalization are not unique to the EM context (Buckley, 1993): conducting business abroad requires an understanding of foreign business practices that are different from those in the home country; a lack of direct access to foreign markets makes it difficult for firms to identify suitable market opportunities (Leonidou, 2004); and adequate learning about foreign markets requires time and resource investments with uncertain payoffs (Sapienza et al., 2006). But compared to developed nations, most of these internationalization barriers are especially salient in the EM context (Khavul et al., 2010): EMs tend to be less enveloped in the global economy, have less mature financial markets (De Santis, 1997), less educated populations (Burgess & Steenkamp, 2006), worse infrastructures (Arnold & Quelch, 1998), and lower institutional quality in general (Alfaro et al., 2008). As a result, when compared to firms from developed markets, EMNCs experience more obstacles to secure key components required for internationalization, such as attracting qualified labor, collecting sufficient financial capital, and gathering knowledge on foreign business opportunities.

However, the EM context is not homogenous (Ramamurti, 2009), and some firms are better equipped to overcome these barriers than others. This is partially due to imprinting effects, as firms tend to incorporate the prevailing social and political arrangements into their organizational design during founding (Carroll & Hannan, 2004). Interactions with the conditions present at founding initiate the development of organizational practices and capabilities appropriate for that environment (Marquis & Tilcsik, 2013). Due to inertial pressures and forces of institutionalization, these initial conditions subsequently endow firms with practices and capabilities that they retain long after founding (Carroll & Hannan, 2004; Marquis & Tilcsik, 2013). For example, Kriauciunas & Kale (2006) found that firms from Eastern Europe predating the fall of communism are endowed with a socialist imprint that hinders their capability to build knowledge routines and curbs their competitive aspirations, while research by Marquis & Qian (2013) showed that older Chinese firms are deeply imprinted by their founding bureaucratic conditions and unlikely to adopt new governance practices. But imprinting forces can provide firms with long-term benefits as well, through the initiation of capability development. For example, Sullivan, Tang & Marquis (2013) demonstrated that venture capital firms were imprinted with learning capabilities that resulted in competitive advantages, and Sapienza et al. (2006) showed that the decision of firms to internationalize early in their lifespan endows them with a capability to adapt to uncertain environments.

By endowing firms with durable capabilities or liabilities that affect their ability to engage with barriers to internationalization, imprinting forces can influence the degree of internationalization pursued by firms. We argue that through these imprinting effects, the conditions that a firm is exposed to at its time of founding can initiate the development of capabilities (or liabilities) that can help (or hinder) it to overcome these barriers in the long run. Consequently, we expect that firms endowed with enabling capabilities will be more likely to pursue higher degrees of internationalization during their lifetime, while firms suffering from imprinted liabilities will be less inclined to internationalize, regardless of how favorable the contemporaneous environment might be to internationalization.

In our treatment of internationalization barriers, we adopt the classification suggested by the OECD, which assigns these barriers to four distinct categories based on an extensive examination of previously written monographs and of globalization patterns of firms (Estime & Peric, 1997). These categories consist of (1) capability barriers, (2) finance barriers, (3) access barriers, and (4) business environment barriers. According to this classification, *capability barriers* refer to the skills required to execute and incorporate business planning, marketing, and knowledge of procedures. *Finance barriers* relate to access to capital, international insurance, and export tariffs. *Access barriers* entail access to general market information, specific market analyses, and identification of business opportunities. Finally, *business environment barriers* consider the external environment of the firm, such as a lack of trade agreements, unfavorable regulations, lack of governmental assistance, and unfamiliarity with foreign business environments (OECD, 2008).

Capability Barriers

One of the largest barriers to internationalization, especially in the EM context, is the small pool of highly educated employees available (OECD, 2008). Successful internationalization requires complementary resources and capabilities, with skilled employees perhaps being the most important of these factors (Glaister, Liu, Sahadev & Gomes, 2014). This issue is especially salient in EMs, where skilled workers are scarce and the graduation rate of newly trained specialists frequently trails the growth rate of the economy (Nakata & Sivakumar, 1997).

While skilled labor may function as a catalyst for internationalization at any time, the supply of qualified labor at the time of founding may have a more lasting effect on firms' strategic behavior. Employees who are the first to hold a particular position at the time of founding tend to imprint the firm by defining the way in which future employees fulfill that particular position (Burton & Beckman, 2007). A similar process occurs at the collective level, as original employees and their needs define the human resource management (HRM) practices of the firm (Gooderham, Nordhaug & Ringdal, 1998). The labor roles and administrative arrangements in a firm will therefore continue to reflect the environmental conditions that prevailed at the time of founding (e.g., Baron & Newman, 1990). The availability of skilled labor to an organization in its founding environment can therefore have a lasting effect in dictating the development trajectory that influences the culture and HRM practices of the firm later on (Bjorkman & Lu, 2001).

Once firms have implemented a set of job roles and HRM practices that reflect the skills of their employees at founding, forces of inertia and institutionalization ensure that these practices persist in firms (Carroll & Hannan, 2004; Marquis & Tilcsik, 2013). When firms possess an HRM system capable of accounting for highly demanding jobs, it can be adapted for the implementation of similarly demanding jobs, such as those with the skillsets required for internationalization. Inversely, firms that have an HRM system in place that was originally developed to harness and exploit unskilled labor will find it more difficult to accommodate the highly skilled workers needed to manage complex internationalization processes during later stages of organizational evolution. The imprint that emerges in firm's' initial job roles and HRM system from the labor conditions at founding therefore provides firms with specific capabilities, which are either conducive or detrimental to attracting the type of employees needed to foster internationalization strategies. Thus, we hypothesize:

> *Hypothesis 1: Available skilled labor at the time of EMNC founding is positively related to the degree of internationalization by the firm at later stages.*

Finance Barrier

OECD identifies lack of access to required capital for internationalization as the major financial barrier that inhibits firms' international expansion (OECD, 2008). Firms that attempt to internationalize often need initial access to long-term capital to finance their expansion, since internationalization tends to require a few years to turn profitable (Sapienza et al., 2006). Furthermore, internationalization is also inherently risky, and many firms that try to internationalize experience lower profits or fail abroad (George, Wiklund

& Zahra, 2005). Firms that possess access to external financiers are therefore in a better position to engage in risky strategic options like internationalization, compared to firms that are forced to mostly rely on self-financing (George, 2005).

If firms have access to functioning external capital markets during their time of founding, they are more likely to employ external capital, initiate financial network linkages, and develop investor relations capabilities at an early age (Aldrich & Auster, 1986; Singh, Tucker & House, 1986; Stinchcombe, 1965). But developing networks of trust-based relationships with financiers takes time (Krackhardt, Nohria & Eccles, 2003). As a consequence, past connections to, and cumulated relational experiences with financiers become a network memory that continues to have bearing on firms (Soda, Usai & Zaheer, 2004). Prior research has shown that these historical ties from an organization's past continue to affect current outcomes (McEvily, Jaffee & Tortoriello, 2012). The ties created with financiers during founding are especially important, as firms are particularly susceptible to external influences during this time. The initial conditions in which these financial network ties are established therefore imprint their structure in such a way that it remains relatively invariant over time (Marquis, 2003; Stinchcombe, 1965).

The network ties that a firm builds over time form a part of their social embeddedness, which influences their access to and cost of capital (Uzzi, 1999). Firms that are socially embedded in financial networks are more likely to develop capabilities that facilitate a search for capital. Moreover, higher levels of social embeddedness reduce the costs and risk associated with financial investments, making financiers more willing to provide capital and at a lower cost (Uzzi, 1999). As a result, easier access to capital facilitates the costly initiation of internationalization strategies (George, 2005). Inversely, when firms are founded in an environment that lacks functional external capital markets, they are less likely to develop the dedicated capabilities and relationships that are required to attract capital for internationalization during later stages of the organizational life cycle. We therefore hypothesize:

Hypothesis 2: Available capital at the time of EMNC founding is positively related to the degree of internationalization by the firm at later stages.

Access Barrier

In the category of access barriers, the difficulty of identifying business opportunities abroad is generally considered to be the most salient barrier organizations face (OECD, 2008). When firms have limited exposure to foreign business opportunities, it is difficult to correctly identify and evaluate such opportunities (Leonidou, 2004). Knowledge of foreign business opportunities is especially limited in EMs, as they are historically less integrated in global markets. But this lack of knowledge can be partially offset by the presence of foreign MNEs. Through knowledge spillovers into the general market, foreign MNEs can provide information about their home countries and other international operations (Fosfuri, Motta & Rønde, 2001). As a result, an increased presence of foreign MNEs can facilitate access to foreign business opportunities for domestic firms (Blomström, Kokko & Globerman, 2001).

However, while the contemporary effects of foreign MNE presence benefitting internationalization have been well documented (Fosfuri, Motta & Rønde, 2001; Haacker, 1999; Mirza, 2004), their presence may have the opposite effect on newly founded firms.

Foreign MNEs are often seen as attractive employers by skilled local workers and can rely on strong reputations to appropriate human resources (Teece, 1986). But these skilled workers are an important resource for internationalization (Glaiser, Liu, Sahadev & Gomes, 2014), and in EMs in particular, these skilled workers are scarce (Nakata & Sivakumar, 1997). Due to their reputation, Foreign MNEs can preempt local firms and prevent them from accessing and acquiring these scarce resources. Existing domestic firms might use their superior knowledge of the local market to acquire skilled labor with greater efficiency than foreign MNEs (Hennart, 2012). But newly founded firms suffer from a liability of newness, as they lack reputation, social capital and tangible resources (Autio, Sapienza & Almeida, 2000; Hannan & Freeman, 1977; Stinchcombe, 1965), and are thus limited in their ability to appropriate skilled labor when foreign MNEs are present.

Moreover, foreign MNEs also provide strong incentives for newly founded firms to adopt a domestic orientation (Görg & Strobl, 2002). Some local firms will be incentivized to provide local complementary assets, which foreign MNEs can combine with their own intangible assets to quickly establish favorable market positions (Hennart, 2012). But foreign MNEs also often create technical or operational knowledge spillovers (Blomström et al., 2001), which provide other opportunities for domestic firms (Chuang & Lin, 1999). Domestic firms are likely to possess superior market knowledge of their home country, which they can use as a competitive advantage vis-à-vis these foreign multinationals, while benefiting from their knowledge spillovers in other areas. The co-location of foreign MNEs and domestic firms might thus create an ecosystem focused on exploiting local advantages.

We therefore expect that EM firms founded in an environment in which foreign MNEs are present will develop a set of coping routines and organizational capabilities that hinder their later-stage internationalization. This is both due to preemption on local factor markets by foreign MNEs, and, more subtly, to the creation of an ecosystem geared towards exploiting local advantages. Foreign MNE presence thus instills a domestic orientation in newly founded EM firms that is difficult and costly to reverse in later time periods (Knight & Kim, 2009). This leads us to the following hypothesis:

> *Hypothesis 3: Inward FDI at the time of EMNC founding is negatively related to the degree of internationalization by the firm at later stages.*

Business Environment Barrier

The most important barrier identified by the OECD with regards to the business environment is unfamiliarity with foreign business practices (OECD, 2008). Due to cultural differences across countries, firms may face unfamiliar business practices when they venture abroad, such as differences in negotiation styles (Leonidou, 2004; Tesfom, Lutz & Ghauri, 2006). A lack of prior exposure to different business environments can generate significant problems for firms when encountered abroad (Tesfom et al., 2006).

The lack of knowledge of foreign business practices can be offset by firms when they employ a diverse labor force in terms of cultural backgrounds (Johnson, Lenartowicz & Apud, 2006). Prior research has emphasized that employee heterogeneity can have a positive effect on the degree of firm internationalization: heterogeneity increases the likelihood that a firm will consider a variety of perspectives (Richard, 2000), it means firm members will have a greater knowledge of foreign languages (Zucchella, Palamra & Denicolai, 2007), and it provides a more heterogeneous working environment, leading to greater acceptance and understanding of cultural differences (Murtha & Lenway, 1994). Employee heterogeneity also aids internationalization in various other ways: it promotes learning and innovation (Hitt, Hoskisson & Kim, 1997), increases the firm's breadth and depth of knowledge (Zahra, Ireland & Hitt, 2000), and can enhance the speed of learning from new experiences (Ghoshal, 1987). Having a more diverse set of employees thus provides firms with the capability to better anticipate, and adapt to, differences in business practices the firm might encounter internationally.

As with skilled labor, firms with access to a heterogeneous set of employees are more likely to design an organizational system with HRM practices that can turn this heterogeneity into a competitive advantage (Wright, Dunford & Snell, 2001; Wright, McMahan & McWilliams, 1994). While heterogeneity may bring some advantages in the home market, other firms founded in the same environment are likely to be endowed with similar capabilities. In the international market, however, a heterogeneous workforce with accompanying HRM practices can translate into a competitive advantage over firms with employees from more homogeneous backgrounds. Firms with more heterogeneous employees are thus incentivized to internationalize. The inertia of the initial employee makeup can therefore turn into a capability for internationalization (Farrell & Saloner, 1985; Utterback & Abernath, 1975). Since it is the accommodative imprinted organizational culture that provides the capability to internationalize (Smircich, 1983), firms that were founded in environments typified by high population heterogeneity are likely to maintain this ability, even if the home country subsequently becomes more homogeneous. Thus, we hypothesize:

Hypothesis 4: Population heterogeneity at the time of EMNC founding is positively related to the degree of internationalization by the firm at later stages.

2.3 METHODOLOGY

Sample and data collection

We tested our hypotheses on a population of the largest publicly listed EMNCs founded in the period between 1993 and 2012. This period encompasses the increasing participation of EMs in the international economy (Autio et al, 2000; Zahra, 2005), and their increased economic power has led to previously unseen EMNC founding and internationalization rates (Hoskisson et al., 2013; UNCTAD, 2009). Furthermore, the EM context lends itself particularly well for studying the role of imprinting effects, because economic and institutional factors in EMs (e.g. customer demand, exchange rate fluctuations, degree of governmental interference or levels of violence) exhibit much more variation over time when compared to developed markets (Meyer, Estrin, Bhaumik & Peng, 2008). Unique characteristics such as governmental intervention in support of EMNCs' internationalization (Sauvant, 2005), the pursuit of home market legitimacy gained from internationalizing towards 'credible' locations (Yamakawa, Peng & Deeds, 2008), and rapid shifts in market-oriented policies (Perotti & van Oijen, 2001) further contribute to creating a set of heterogeneous conditions. Moreover, nearly all EMs experienced significant economic and institutional changes over time. As a result, firms founded across different EMs and years have been subjected to relatively different imprinting forces, allowing for significant differences in their subsequent predisposition toward internationalization. Moreover, since so much variation exists across time, historical founding conditions are likely to differ markedly from contemporaneous conditions. This context thus provides us with a more advantageous vantage point from which to observe the factors that contribute to imprinting compared to the more stable context of developed countries.

Classifications of which countries are or are not EMs vary. We therefore identified ten major lists of EMs and included all the countries that appeared on at least five of these lists.[1] This resulted in the selection of 22 countries that are commonly identified as EMs: Brazil, Chile, China, Colombia, the Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Pakistan, Peru, the Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey. Due to a lack of available country-level data on Taiwan as a result of the disputed nature of its status as a sovereign state, we dropped this country from our analysis, leaving us with a final list of 21 EM countries.

We constructed our firm sample from the Orbis database[2]. In our selection of firms, we applied the following criteria: (i) the firm was founded between 1993 and 2012, given that for this period longitudinal data on institutional variance is available. Exploring the time period prior to 1993 was not feasible due to data unavailability; (ii) the firm was founded in one of the 21 identified EM countries. By casting our net this wide, we tried to maximize cross-sectional variance and ensure that we captured all kinds of EMNCs (Ramamurti, 2012); (iii) the firm was publicly-listed and had a market capitalization at the end of 2013 of at least 100 million US dollars to ensure adequate information disclosure and public verification.

By applying these selection criteria, we created a list of 2,813 firms across 21 countries for our analysis. The sample includes a majority of Asian firms, as 89% of our firms stem from this region, predominantly from China, South Korea, Malaysia and India. The firms in our sample have an average age of 14 years, and an average market capitalization of 1.42 billion USD.

Dependent variable

We measured our dependent variable, the degree of firm internationalization, by taking the number of foreign subsidiaries over total subsidiaries for the year 2013 (e.g., Harzing, 2000; Sullivan, 1994; Wang & Suh, 2009). We collected this data by collecting information on all the subsidiaries owned by the firms in our sample from Orbis, and coding their location. We then calculated the total number of foreign subsidiaries (compared to the headquarter location) and divided this by the total number of subsidiaries of the firm. As a result, our sample also contains firms with zero international subsidiaries. We chose to apply such a wide sample as it increases the generalizability of our findings and prevents sampling on the dependent variable. The degree of internationalization in our sample ranged from 0 to 100, with the average being 6. Our firms recorded 34,627

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[1] IMF, Columbia University EMGP, BBVA, EAGLEs, Dow Jones, The Economist, BRIC + Next 11, FTSE, MSCI, CIVETS and S&P

[2] orbis.bvsinfo.com

subsidiaries in total, of which 4,085 were foreign. For the firms that had at least one foreign subsidiary (25.70%), the average degree of internationalization was 23.

Compared to other measures of internationalization, such as foreign sales over total sales (FSTS) or foreign assets over total assets (FATA), data on foreign subsidiaries is more widely available and captures the degree of international involvement of a firm particularly well (Stopford & Wells, 1973; Vernon, 1971). Subsample analyses of those firms for which we were able to collect other measures of internationalization indicated that the number of foreign subsidiaries over total subsidiaries was positively related but substantially different to FSTS (r=0.26; N=1248) and FATA (r=0.16, N=104).

Independent variables

We tested our hypotheses by examining how imprinting affects the most often reported indicator for each of the four internationalization barrier categories (OECD, 2008). According to the OECD report, these barriers include: inadequate quality and/or untrained personnel as a capability barrier, a shortage of working capital as a finance barrier, limited information to locate/analyze markets as an access barrier, and unfamiliarity with foreign business practices as a business environment barrier.

Skilled labor. We used the level of education in the population as a measure of the availability of skilled labor. This measure was constructed by adopting the Barro-Lee indicator for percentage of the population aged 15+ with completed tertiary education from the EdStats database. Since this data is only available with five-year increments, we used a multiple imputation approach to estimate the underlying missing values. This methodology is based on creating *m* values for each missing data point. This provides us with *m* full data sets, which we all then analyze and subsequently recombine the results. We chose this approach since other common methods for dealing with missing values such as listwise deletion, single imputation and mean imputation are often biased or inefficient (Fichman & Cummings, 2003). We used the Amelia II package in R to calculate our estimations.

Market capitalization. Since our sample consists of publicly listed firms, we chose to estimate the availability of capital by measuring stock market capitalization. This is the major source of capital for publicly listed companies and is in line with prior studies that estimated access to capital (Di Giovanni, 2005; La Porta, Lopez-de-Silanes, Schleifer & Vishny, 1997; Levine; 1996). For this measure, we divided the total market capitalization of listed companies by the GDP of a given country to indicate the size of the stock market, and therefore capital availability, relative to the size of the economy. This data was collected from the World Development Indicators.

Presence of foreign MNEs. We employed the widely used inward foreign direct investment (FDI) as an indicator for the presence of foreign MNEs (e.g. Kwok & Tadesse, 2006; Li & Liu, 2005). We collected this data from the UNCTADstat data center.

Population heterogeneity. Since information on population heterogeneity remains scarce for EM countries, we constructed our own measure of heterogeneity. We did so by identifying three dimensions of population heterogeneity: ethnic, linguistic and religious (Alesina, Devleeschauwer, Easterly, Kurlat & Wacziarg, 2003; Faeron, 2003). Prior work has developed several population heterogeneity measures (Alesina et al., 2003; Fearon, 2003), but the measures constructed thus far are time-invariant and thus unsuitable for capturing imprinting effects. To construe our population heterogeneity variable, we turned to the Encyclopedia Britannica book of the year. This periodical annually provides information on the demographic make-up of all countries, based on surveys conducted in these countries. The Encyclopedia provides data on ethnic, religious and linguistic make-up. We used a Herfindahl index to convert the percentages from the Encyclopedia into a measure of heterogeneity. Since these surveys are not conducted on a yearly basis, some missing values exist. Similar to the skilled labor operationalization, we used the Amelia package in R to estimate these missing observations. After creating a complete set of observations for all three dimensions, we averaged the three scores to construct a single indicator for population heterogeneity.

Control variables

Our main control variables consist of the respective score for 2013 of each independent variable. These controls allow us to disentangle founding effects from contemporaneous effects, ensuring the validity of our independent variable scores as measures of imprinting effects. At the firm level, we included a control for firm age, measured as the difference in years between 2013 and the year of incorporation. Previous authors have suggested that firm age-related factors can influence the degree of internationalization, both positively and negatively (e.g. Autio et al., 2000; Oviatt & McDougall, 1997; 2005). We control for firm size by measuring market capitalization in 2013 US dollars in the year in which we measured our dependent variable, namely 2013. This is in line with prior studies that have measured firm internationalization, as firm size can influence the availability of resources for expanding abroad (Carrier, 1994; Smith, Gannon, Grimm & Mitchell, 1998). We control for firm performance by measuring the firms' return on assets in the year we measured our dependent variable, i.e. 2013. Prior work has shown that firms with superior performance are more likely to internationalize (Lu & Beamish, 2004). Finally, since industry can play a role in the international orientation of firms (Boter & Holmquist, 1996), we coded dummy variables for four distinct types of industries: manufacturing, non-financial services, financial services and primary sector (reference category). We collected the data for all firm-level control variables from Orbis.

Estimation method

Similar to prior empirical work on imprinting (Carr, Haggard, Hmieleski & Zahra, 2010; Kriauciunas & Kale, 2006; Shinkle & Kriauciunas, 2012), we use regression analysis to estimate the effect of country-level imprinting. Specifically, we employ a two-limit Tobit model on our set of 2,813 firms founded between 1993 and 2012. The dependent variable we employ in our sample is a continuous measure truncated by the lower and upper limits of 0 and 100 respectively, with a large number of 0 observations. Estimating ordinary least squares on data with many zero variables in the dependent variable, as is the case in our sample, can result in biased and inconsistent estimates for the parameters (Greene, 2002). We therefore applied a two-sided Tobit model (Greene, 2002; McDonald & Moffitt, 1980) for our analysis, as this methodology accounts for the likelihood that the dependent variable exceeds the threshold values. The Tobit methodology yields consistent and asymptotically efficient estimators by using a maximum-likelihood estimator (Long & Freese, 2006). All analyses were conducted using Rstudio version 0.98.1083. We tested our variables for skewness using the Shapiro-Wilk test prior to our analyses (Greene, 2002), which did not yield statistically significant deviations from normality.

TABLE 2.1
Correlations and Descriptive Statistics[a]

Variable	*M*	*SD*	1	2	3	4	5	6	7	8	9	10
Age	13.92	4.49										
Size	1379.11	4732.23	-0.02									
Performance	4.05	7.48	0.03	0.12								
Skilled Labour	7.57	4.80	0.42	0.03	-0.01							
Skilled Labour 2013	17.11	7.60	-0.04	-0.04	-0.06	0.64						
Access to Capital	41.27	43.51	0.44	-0.01	0.12	0.08	-0.28					
Access to Capital 2013	72.00	18.93	-0.01	-0.06	0.04	-0.05	0.11	0.34				
Foreign MNEs	3.34	1.57	-0.27	-0.11	-0.08	-0.28	-0.04	-0.10	0.04			
Foreign MNEs 2013	1.65	0.89	0.12	0.13	0.07	-0.18	-0.48	0.46	0.01	0.06		
Heterogeneity	0.56	0.11	-0.05	0.06	-0.03	0.46	0.53	-0.33	-0.20	-0.20	-0.24	
Heterogeneity 2013	0.54	0.09	-0.00	-0.06	-0.05	0.36	0.46	-0.40	-0.10	0.04	-0.42	0.80

[a]Note: $N = 2813$; correlations greater than or equal to 0.04 are significant at the $p < 0.05$ level

corresponds to an increase in 5.4 percentage points of future internationalization, which is a moderate increase in the degree of internationalization of the firm.

2.4 RESULTS

Table 2.1 provides the means, standard deviations, and correlations among the variables we employed in our analysis. The table shows large correlation coefficients between the abundance of skilled labor at founding and in 2013, as well as between the degrees of heterogeneity at founding and in 2013. Given that these variables are likely to be the most stable over time, this finding is not surprising. We did analyze the variance inflation factors (VIFs) of the model to ensure that multicollinearity was not a problem, and all scores were significantly lower than the critical value of 10 (Kutner, 1996). Table 2.2 presents our regression results used to evaluate Hypotheses 1 through 4. In the first model of Table 2.2 we only include the control variables, models 2 through 5 test the direct effects of Hypotheses 1-4 respectively, while model 6 is the complete model with all hypotheses tested simultaneously.

Model 6, Table 2.2, shows the results for our hypotheses. For Hypothesis 1, we find an estimated effect size of founding education levels on later firm internationalization that ranges between 0.3566 and 1.8833 ($\beta = 1.1200$, $p=0.004$, s.e. = 0.3893). This finding is congruent with our first hypothesis and suggests that the higher the availability of skilled workers during the founding of the firm, the greater the degree of firm internationalization in the future. When we interpret the magnitude of this effect, we find that an increase in one standard deviation (s.d.) from the mean of founding education levels ($\sigma = 4.80$).

In our test of Hypothesis 2, we find that the estimated effect size of founding capital availability on future firm internationalization ranges between 0.0096 and 0.1476 ($\beta = .0786$, $p = 0.0256$, s.e. = 0.0352). This finding implies support for our second hypothesis, which would indicate that the higher the level of available capital at the time of firm founding, the higher the subsequent degree of internationalization by the firm. With regard to the magnitude of this effect, an increase in one s.d. from the mean of founding capital availability ($\sigma = 43.51$) coincides with an increase of 3.39 percentage points in subsequent internationalization, which is again a moderate increase in a firm's degree of internationalization.

For our third Hypothesis, we predicted that the presence of foreign MNEs during firm founding would be a negative indicator for the eventual degree of internationalization. We found a corresponding estimated effect size ranging from -1.2042 to -4.3172 ($\beta = -2.7607$, $p = 0.0005$, s.e. = 0.7938). This finding concurs with our third Hypothesis, which implies that the higher the level of foreign MNE presence during firm founding, the lower the firm's eventual degree of internationalization will be. Once again, we find a moderate effect when interpreting its size, as an increase of one s.d. from the mean of founding foreign MNE presence ($\sigma = 1.57$) is consistent with a decrease of 4.33 percentage points in later firm internationalization.

Finally, our fourth Hypothesis predicts that the higher the degree of population heterogeneity during firm founding, the higher the eventual degree of the firm's internationalization will be. For this hypothesis we found an effect size ranging from 7.135 to 84.145 ($\beta = 45.634$, $p = 0.0201$, s.e. = 19.637). This finding is again consistent with our fourth Hypothesis, indicating that the heterogeneity of a firm's founding environment has a positive impact on the future internationalization of the firm. We also find a moderate effect size for our final hypothesis, as an increase of one s.d. from the mean of founding heterogeneity ($\sigma = 0.11$) corresponds to an increase of 5.02 percentage points in the future degree of firm internationalization.

TABLE 2.2

Partial and Full Model Specification

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept 1	-18.99***	-21.05***	-29.44***	-22.44***	-9.17	-37.75***
	(5.26)	(6.09)	(6.71)	(6.05)	(8.15)	(11.24)
Intercept 2	3.81***	3.80***	3.81***	-3.80***	3.81***	3.79***
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Age	-0.65**	0.11	-0.14	-0.26	-0.71**	0.35
	(0.25)	(0.29)	(0.27)	(0.25)	(0.25)	(0.32)
Size	0.00***	0.00***	0.00***	0.00***	0.00***	0.00***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Perfomance	-0.15	-0.19	-0.22	-0.20	-0.16	-0.26
	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)
Manufacturing	-4.40	-0.16	-3.16	-0.07	-2.54	1.18
	(4.22)	(4.27)	(4.23)	(4.27)	(4.30)	(4.29)
Service	-4.44	-3.36	-3.77	-3.27	-3.30	-3.86
	(4.51)	(4.49)	(4.50)	(4.48)	(4.55)	(4.47)
Finance	-10.56	-13.57*	-11.24*	-11.14*	-9.98	-15.97**
	(5.50)	(5.49)	(5.49)	(5.45)	(5.53)	(5.50)
Skilled Labour		1.69***				1.12**
		(0.36)				(0.39)
Skilled Labour'13		-1.37***				-1.31***
		(0.22)				(0.27)
Access to Capital			0.12***			0.08*
			(0.03)			(0.04)
Access to Capital'13			-0.03			0.09
			(0.06)			(0.06)
Foreign MNEs				-3.58***		-2.76***
				(0.75)		(0.79)
Foreign MNEs '13				4.85***		-0.05
				(1.27)		(1.61)
Heterogeneity					37.90*	45.64*
					(16.86)	(19.64)
Heterogeneity '13					-58.16**	-17.72
					(20.37)	(23.34)
Pseudo R^2	0.02	0.04	0.04	0.03	0.03	0.05
Log-likelihood	-4504.25	-4484.00	-4494.01	-4486.60	-4499.90	-4466.72
N	2813	2813	2813	2813	2813	2813

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

All hypotheses also show similar results in the direct models where we test for the effects of a single hypothesis in isolation (models 2-5) when compared to the total model (model 6). Overall, our findings indicate strong support for the presence of imprinting effects and their influence on firm internationalization.

Robustness tests

Since internationalization is a risky endeavor, our sample suffers from a potential survivor bias. In order to control for the effects of self-selection and to produce consistent estimates we conducted a robustness test using a two-stage Heckman-Lee estimator (Heckman, 1979; Lee, 1978). As the availability of historic data on non-surviving EMNCs in sufficient quantities is limited at best, we made an approximation to be used in a robustness test instead of using this technique as the basis for our main analysis. For this test, we managed to collect data on 618 previously listed firms in our 21 EMs that were founded in the period between 1993 and 2012. By employing firm industry, age at t-1 and size at t-1 as our selection criteria, and delistment as the selection hazard, we were able to find similar results for Hypotheses 1, 2 and 3, but the coefficient for Hypothesis 4 was insignificant. However, due to the limited amount of data available, it should be noted that this additional sample was not subjected to the minimum size criterion of a market capitalization of 100 million USD. This might explain the lack of significance of our findings for Hypothesis 4, as the development of capabilities through employing a heterogeneous set of employees could require a minimum threshold of employees that is not reached by these firms.

2.5 DISCUSSION

Imprinting and Internationalization Barriers

In this paper, we evaluated the impact of imprinting on the internationalization barriers experienced by firms. Our findings suggest that imprinting theory can be employed as a useful complementary perspective that builds upon the nascent literature on EMNC internationalization, and more broadly on internationalization theory in general. By applying the lens of imprinting theory and thus acknowledging the effects of different founding conditions, we can disentangle inter-temporal country level effects on the internationalization behavior of firms. As a result, we are able to explain differences in both firm internationalization degrees across countries, as well as across firms in the same country (Gammeltoft et al., 2010; Hoskisson et al., 2013), particularly in the context of EMs. Our findings indicate that subsequent uses of imprinting in conjunction with more conventional theories of internationalization, such as the OLI paradigm (Dunning, 2001) or incremental internationalization theory (Johanson & Valhne, 1977; 2003), allow for a richer model that more fully explains the internationalization behavior of firms.

Our unpacking of the role of imprinting effects on internationalization further builds on the work of Sapienza et al. (2006). Where Sapienza and his colleagues considered an imprint created by the timing of the initiation of internationalization, and its relation to firm survival and firm growth, we demonstrate that environmental conditions create an imprint that in itself (dis-)incentivizes internationalization. Since there is a temporal separation between the two events, this suggests the possibility that imprints at one time can lead to different imprints at a later time. This opens up new potential avenues for research, especially in conjunction with the concept of multiple sensitive periods.

According to this idea, firms can experience multiple periods where they are susceptible to imprinting effects beyond the founding stage (Marquis & Tilcsik, 2013). Viewing imprinting effects in this way as multi-temporal constructs suggests even further reaching consequences of imprints than previously foreseen, and begets interesting future research opportunities.

Emerging Markets and Firm Strategies

We add to the EM literature by deepening our understanding of the uniqueness inherent to the continuously changing and evolving EM context, and how this affects firm strategies (Peng, 2003). Due to the volatility and dynamic nature of the EM setting, the persistence of imprinting effects, even in the face of negative feedback (Kilduff, 1992), is likely to be even more pronounced than in developed markets. Thus, we argue that the extent to which EMNCs internationalize is not just a matter of current firm and market conditions (e.g. Cuervo-Cazurra & Genc, 2008; Luo & Tung, 2007; Ramamurti & Singh, 2008), but is also contingent on the extent to which a firm's founding conditions incentivized internationalization behavior. Even though our research is concerned with the analysis of internationalization outcomes, it highlights the unique relevance of imprinting in the EM context, which is likely to reach beyond influences on internationalization. While institutional perspectives have thus far been the driving explanation for the divergent strategic behavior of EM firms in general (Hoskisson et al., 2003; Peng, 2003; Wright, Filatotchev, Hoskisson & Peng, 2005), we argue that imprinting theory is a valuable complementary perspective to theories of organizational strategy that, given the uniquely dynamic nature of the EM context, provides further insights into the strategic decision making of firms not otherwise noticeable in more stable and developed economies.

This particular context also raises questions regarding the longevity of imprints, as the degree of persistence or decay of imprinting effects is currently largely unexplored (Marquis & Tilcsik, 2013). We predicted that the effects of imprinting are more pronounced in the EM context as their volatile nature provides multiple, clearly distinguishable sets of founding configurations. However, it is also possible that this volatile situation creates an imprint of its own, steering organizational designs towards malleable structures that can quickly adapt to rapidly changing circumstances (Child, 1972; Pfeffer & Salancik, 1978). Further research is needed to determine how the dynamism of the founding conditions influence the strength of imprints, and in which contexts imprints are expected to be more pronounced.

Imprinting and Strategic Choice

We contribute to the imprinting literature by presenting the possibility that firm level imprints can, to a certain extent, be created. By identifying environmental imprinting factors that can be shaped by state intervention (Knill & Lehmkulh, 2002; Milner & Keohane, 1996), we show that environmental imprinting effects are not solely the result of accidental outcomes. Instead, environmental imprints can be a product of deliberate design, a perspective that has previously been restricted to entrepreneurial imprints (Johnson, 2007). Our study thus reduces the deterministic nature of environmental imprinting by extending the agentic perspective beyond entrepreneurial influences. This implication extends the debate between environmental determinism and strategic choice (Bourgeois, 1984; Hrebiniak & Joyce, 1985, Judge at al., 2015) by introducing another option: governmental strategic choice that leads to firm environmental determinism. This approach constitutes a novel way of looking at state intervention, and warrants further research that explores the full extent of influence the state can indirectly exert on firm strategies.

A further implication of our work is that while we propose that although state intervention introduces a degree of agency with regard imprinting effects, we consequently suggest that policy changes may have weaker consequences for incumbent firms than commonly assumed. Since incumbent firms are also constrained by imprints from their founding conditions, the intervention of the state at later stages is likely to be somewhat limited. State intervention policies are therefore more likely to be effective if oriented towards firms yet to be founded, rather than firms already in existence. This opens up future research opportunities by analyzing the effectiveness of state policies with respect to the potential constraints of earlier policies.

Limitations and Future Research Directions

The results of our study should be interpreted in light of several limitations that suggest opportunities for future research. First, while our research does account for changes in the institutional context of the firm over time, our measure of internationalization does not allow us to take the moment of internationalization into account. As a result, contemporary conditions at the time of founding could conceivably play a role in determining the extent to which firms internationalize. Further research could follow up on the work of Sapienza et al. (2006) to determine the effect of a possible additional imprint stemming from the internationalization itself.

Second, our results could be influenced by our choice of dependent variable. Our analysis employed foreign subsidiaries over total subsidiaries as a dependent variable, but using a different operationalization of internationalization, such as FSTS or FATA, could lead to different results (Sullivan, 1994). Given that different conceptualizations of internationalization require different sets of capabilities (Peng, 2001), it would stand to reason that different imprinting factors could possibly play a role in producing different 'types' of internationalization or that the imprinting factors we examined have a different effect. Further research is required to investigate the effects of imprinting on different conceptualizations of internationalization.

Third, we examined the effect of imprints in the EM context due to its volatility. However, this inherent volatility could influence the extent to which firms are affected by imprinting effects. Prior knowledge of a changing environment could lead to the creation of firms that are inherently more flexible or adaptable, which would influence the strength of imprinting effects. Additional research could expand this idea and apply it to the developed market context, to determine whether the effects of imprints in a more stable environment provide similar results.

Our research also does not take into account the possibility that imprinting might occur after firm founding. Transition periods in firms, for example when a new CEO is appointed, usher in a period of time when a firm is particularly susceptible to influences from its environment, which can subsequently lead to the creation of a new set of imprints (Marquis & Tilcsik, 2013). This can also occur as new firm features and practices do not replace older ones, but are rather layered upon them (Cooper, Hinings, Greenwood & Brown, 1996). These new sets of imprinting factors could interact with the old imprints, either by enhancing, subduing or modifying them, which, in turn, could lead to confounding effects in our analysis that are currently unaccounted for. Future research should take this into account and empirically examine the influence of new sets of imprinting factors on older imprints.

Finally, survivor bias may influence our findings. As Sapienza and colleagues (2006) have pointed out, the decision of firms to internationalize is not necessarily beneficial to its survival. While we recognize this shortcoming and therefore attempted to conduct a robustness test by using a Heckman-Lee estimation to control for this potential sample bias, the limitations placed on our analysis by the unavailability of the appropriate data limits the interpretability of our results. Thus while our tentative approximation of correcting for this sample bias does not indicate any immediate issues regarding a survivor bias in our sample, we cannot rule out the possibility that any effects from a potential survival bias are completely absent. Future research could analyze the entire set of EM firms founded since 1993 to determine whether or not the imprinting factors that facilitate internationalization might also hinder firm survival, due to the inherent additional risk attached to internationalization.

Conclusions

Recent research has documented the rapid rise of EMNCs in the global marketplace. This study improves our understanding of these powerful economic actors by employing the lens of imprinting theory. We introduce a model of the direct effects of historical conditions on subsequent EMNC internationalization, related to the imprints of availability of skilled labor, access to capital, the presence of foreign MNEs, and population heterogeneity. In doing so, we identified a promising new direction in which to further develop our understanding of firm internationalization. Our research emphasizes that the nascent theory of EMNC internationalization, which has thus far primarily stressed the influence of contemporaneous factors, needs to be broadened to consider the role of imprinting. Modeling non-contemporaneous factors is necessary, as our study shows that environmental conditions at the time of founding tend to have a lasting effect on EMNC strategy.

CHAPTER 3

FOUNDING MUNIFICENCE AND FIRM PERFORMANCE: A CONTINGENCY APPROACH TO EVALUATING IMPRINTING EFFECTS

In this study we examine the effect of the founding environment of a firm on its future performance. We focus on munificence, as the availability of resources plays a key role in determining the organizational structure and strategies that a firm chooses to adopt. Based on arguments from imprinting theory, we develop hypotheses on how founding munificence and changes in munificence shape organizational future performance. A 2-stage Heckman selection analysis of over 2,000 U.S. firms founded between 1997 and 2012 provides evidence that high levels of founding munificence are detrimental in developing the skills and capabilities that help future firm performance. The larger the differences between founding and current munificence, the stronger the negative impact from munificence becomes. In addition, we find that the direction in which munificence changes since founding has an impact on imprinting effects: increases in munificence allow firms founded during times of scarcity to start exploiting their developed capabilities, while decreases in munificence serve as a leveler that reduces the overall effect of imprinting.

3.1 INTRODUCTION

Extant research has shown that the external conditions a firm is subjected to at its time of founding have a notable impact on its future. A growing body of literature has examined how the decisions of firms in their early stage manifest in later years through the lens of imprinting theory (e.g. Boeker, 1989; Kriauciunas & Kale, 2006; Marquis & Huang, 2010; Marquis & Tilcsik, 2013; Shinkle & Kriauciunas, 2012; Stinchcombe & March, 1965). Central to this perspective is the notion that the prior experiences of an organization at key periods in their life can have an enduring impact on the organizations' future. Effects from imprinting can have consequences for a wide range of organizational outcomes, such as internationalization capabilities, capacity to change, or acquisition propensity (e.g. Kriauciunas & Kale, 2006; Lounsbury, 2007; Marquis & Huang, 2010; Sapienza, Autio, George, & Zahra, 2006).

Research has also demonstrated the existence of a link between founding conditions and future firm survival chances (Dobrev & Gotsopoulos, 2010; Swaminathan, 1996). However, the link between founding conditions and future performance is less well-established. More importantly, while imprinting exaptation (Marquis & Huang, 2010) and imprinting decay (Marquis & Tilcsik, 2013) shed some light on the dynamics between imprints and the environment, we still know little about this overall interaction. In particular, how changes in the environment over time affect imprinting is a gap that has not yet been explored.

We therefore set out to examine the imprinting process from a contingency-based approach, and analyze altering conditions under which imprinting effects might become more or less pronounced. To do so, we start with an analysis of how the munificence of a firm's founding environment influences its future performance. We then examine how the environment develops over time to explain how the same imprints might result in heterogeneous outcomes for different organizations. If the manifestation of imprints is contingent on the development of the external context, then better understanding this dynamic will help shed light on how imprinting mechanisms function.

To test the hypotheses we present in this paper, we constructed a panel data set of publicly listed firms founded in the United States in the period between 1997 and 2012, consisting of over 2,000 firms and 10,000 firm-year observations. We focus on different industries and years which provides a large degree of heterogeneity in the founding conditions in our sample. We collected yearly data on the munificence conditions in the environment for each industry, allowing us to analyze both founding and future yearly conditions for each firm. We tested our hypotheses with two-stage Heckman selection with firm survival as our first stage selection, and find empirical evidence that supports our hypotheses. Specifically, we find that munificence during firm founding has a negative impact on future firm performance. Increased differences between current and founding munificence likewise negatively impact firm performance. Additionally, we demonstrate that this effect occurs predominantly when the environment sees an increase in munificence compared to founding conditions.

We propose to make three contributions to the literature with this paper. First, our paper builds on prior work that examines the mechanisms underpinning imprinting effects (e.g. Johnson, 2007; Marquis, 2003; Noorderhaven & Harzing, 2003) by demonstrating that the extent to which imprinting effects manifest is contingent on the difference between current and founding conditions. This insight provides insights into the debate on how the contingencies of imprinting affect the extent of their impact, which until now has mainly been restricted to the dimension of time (Marquis & Tilcsik, 2013). Second, we further contribute to the imprinting literature by demonstrating that the way external conditions evolve over time has an effect on the effects of imprinting itself. This idea shows that when evaluating the consequences of imprinting effects, we cannot just examine their impact in a vacuum, and must account for the developments of contemporary conditions as well. Third, we contribute to the literature on environmental munificence imprinting (e.g. Marquis & Tilcsik, 2013; Oon, Prabhu, & Singh, 2015; Tilcsik, 2014) by demonstrating the interplay between munificence and the capacity for imprinting effects to manifest. Our paper shows that imprint effects are contingent on their contemporary environment, and the scope this provides to organizations to pursue the different strategic directions that imprinting effects incentivize. This finding has implications for not just the imprinting effects stemming from founding munificence, but implies that the impact of all imprinting effects are contingent on the extent to which an organization's environment allows for differentiation.

3.2 THEORY

Environmental munificence

One of the greatest contingencies that organizations face is that of their external environment (Goll & Rasheed, 2004). Over time, a large body of work has emerged documenting how a variety of environmental factors shape organizational structures, strategies and outcomes. Of all the existing factors in the external environment of an organization, few are arguably as important for explaining strategic behaviors and organizational outcomes as a firm's external munificence (Castrogiovanni, 1991).

The concept of munificence generally refers to the availability of resources to an organization, as well as its capacity to support organizational growth (Aldrich, 1979; Castrogiovanni, 1991; Dess & Beard, 1984). The ability of firms to acquire resources is therefore directly related to the level of munificence in its environment (Tyebjee & Bruno, 1982). The literature on environmental munificence frequently refers to its role in molding organizational structures, decision making, and stakeholder satisfaction (Goll & Rasheed, 2004, e.g. 1997; Tushman & Anderson, 1986; Yasai-Ardekani, 1989).

The munificence of the environment is particularly important for newly founded firms, as they are generally more cash constrained (Cabral & Mata, 2003), and have not yet developed legitimacy in financial markets (Diamond, 1989). It is therefore not surprising that prior work has established the existence of a link between the levels of environmental founding munificence a firm experiences, and its future organizational outcomes. Founding endowments impact the key strategic decisions of firms regarding their structure, model and boundaries (Swaminathan, 1996). For example, Carroll and Hannan (1989, 2004) showed through their construct of density delay that the level of organizational density and competitiveness at founding has a lasting effect on a firm's future mortality rate. Kimberly (1979) found that environmental conditions caused initial strategic choices to have an enduring effect on the behavior and performance of organizations. Other work demonstrated that the availability of resources during founding has a lasting effect on subsequent rates of change across a variety of organizational process (Tucker, Singh, & Meinhard, 1990).

Founding conditions

When it comes to the initial survival of organizations, one of the most important determinants is the extent to which organizations fit with their external environment (Hannan & Freeman, 1977). New ventures generally suffer from a liability of newness (Abatecola, Cafferata, & Poggesi, 2012; Freeman, Carroll, & Hannan, 1983; Stinchcombe & March, 1965), which forces them to be more cognizant of their surrounding conditions. It is during this time, when new organizations are still lacking in experience, that they start to develop their organizational routines and build relations with potential suppliers and customers (Abatecola et al., 2012). Simultaneously, due to their newness these firms have not yet acquired any legitimacy (Singh, Tucker, & House, 1986). In order to obtain legitimacy and increase their chances of survival, new ventures are therefore likely to adopt the routines and practices that are perceived as legitimate during their time of founding. In this way the initial founding conditions of the firm can have a significant impact on how firms are structured to operate.

A particularly important founding characteristic is the level of environmental munificence, as munificence directly influences the breadth of strategic options available to organizations (Aragón-Correa & Sharma, 2003). By being founded in a more munificent environment, organizations face less competitive pressure and have more freedom to deviate from the norm (CITE). As a consequence, munificent founding environments allow for more diverse organizational strategies, since it will be easier to realize profits with sub-optimal approaches. On the other hand, more lenient founding conditions are likely to weed out deviating organizations much more rapidly, resulting in a much smaller, but also more homogenous, group of surviving firms.

Imprinting

According to imprinting theory, at key points in time certain aspects in the immediate surrounding context of an organization can become internalized, which then persist with the organization in subsequent years (Marquis & Tilcsik, 2013; Stinchcombe & March, 1965). These conditions consequently continue to influence several organizational characteristics, such as its structure and behavior. The imprinting of firms occurs during critical points in the firms' lifespan (Marquis & Tilcsik, 2013), of which the founding period is usually the most important (Carroll & Hannan, 2004; Johnson, 2007; Sapienza et al., 2006). At the time of founding, two predominant sources of imprinting effects exist: the founder of the organization, who can create a foundational blueprint that continues to persist (Johnson, 2007), and the external environment of the organization. In the latter case, imprinting transpires in several stages. First, a selection process occurs because a liability of newness ensures that only a select set of organizations is viable and legitimate (DiMaggio & Powell, 1983; Freeman et al., 1983). The availability of resources in the environment then further constrains or incentivizes firms in certain directions. As a consequence, the organizational structure that firms implement, the strategic paths they chose to pursue, the routines that they adopt, and the development of capabilities they initialize emerge as a result of the organizational environment (Marquis & Tilcsik, 2013). This implies that the historical conditions under which an organization is founded have a long-lasting impact that continues to influence the behaviors and outcomes of the organization many years later, even though these initial conditions might have since changed or disappeared.

The concept of imprinting has seen a wide variety of applications in the literature with regards to organizational outcomes thus far. For example, Kriauciunas and Kale (2006) have discovered that firms founded in former communist countries during the communist regime tend to exhibit a “socialist imprint” that inhibits their capacity to change. Boeker (1988) conducted research on how founding conditions shape the beliefs and attitudes of the founding entrepreneur, with consequences for subsequent choices and long-term strategic development in the organization. Marquis and Huang (2010) have argued that the founding conditions of banks influenced their capability to manage dispersed branches, which subsequently influenced their propensity to engage in acquisitions. Results from Lounsbury (2007) showed that imprinting effects can cause competing logics in organizations with regard to the social organizations of firms and industries. And Sapienza et al. (2006) identified an imprint stemming from early internationalization that influenced future firm survival and growth probabilities.

The imprinting of firms can therefore occur in various ways, but there are several commonalities in why these initial conditions tend to persist within an organization. One contributing factor is that of organizational inertia (Hannan & Freeman, 1984). After establishing a certain type of behavior within the organization, practices become routinized and institutionalized (DiMaggio & Powell, 1983). Barring a subsequent major organizational reform, which brings large amounts of uncertainty and can therefore be costly and hazardous, the initial cognitive outlook of organizations frequently ossifies (Nelson & Winter, 1982). In addition, the development of capabilities can result in either core rigidities or competence traps, further reinforcing the prevailing nature of initial organizational decisions (Szulanski, 1996). As a result of these inertial forces the initial choices of the organization persist with organizations, even though signals from the organizational environment might indicate that the firm is pursuing a suboptimal configuration or strategy (Kilduff, 1992; Milanov & Fernhaber, 2009).

Imprinting effects are also reinforced through escalating commitment in management (Bateman & Zeithaml, 1989). Firms often fail to adjust their organizational strategy as a consequence of a not wanting to waste initially invested resources, causing them to “*face a downward organizational inertia in the sense that even in the face of an economic incentive to downsize, they fail to retrench”* (Van Witteloostuijn, 1998:509). Political resistance within an organization can further reinforce inertia and hinder change (Tushman, Virany, & Romanelli, 1985). As a result, firms tend to stick with their initially chosen strategies regardless of future occurrences in the external context (Kraatz & Zajac, 2001; Miller & Chen, 1994).

Munificence, imprinting and firm performance

Due to the effects of imprinting, founding conditions can influence future firm success in several ways. Prior research has shown that founding conditions have an influence on a firm’s future chances of survival (Geroski, Mata, & Portugal, 2010). For example, during harsher times unemployment increases, and unemployed individuals are more likely to establish new firms (Evans & Leighton, 1989). But these firms are often established out of necessity rather than because of an identified competitive advantage or need in the market, and subsequently their survival chances tend to be lower (Pfeiffer & Reize, 2000). However, if firms do manage to survive harsher founding conditions, they will have experienced a “trial by fire” and are more likely to survive in the future (Swaminathan, 1996).

Firm performance is likely to benefit from adverse founding conditions as well. First of all, in line with the "trial by fire" model from Swaminathan (1996), stricter conditions will quickly weed out organizations that are likely to be unprofitable. This also helps firms to benefit from vicarious learning. If unstainable business practices are rapidly weeded out, this will serve as a selection effect for other firms to identify the behaviors that are successful (Delacroix & Rao, 1994; Miner & Haunschild, 1995).

Second, munificent environments allow firms to pursue goals that are not strictly profit maximizing (Jensen & Meckling, 1976), thereby instilling less urgency in firms to continuously strive for optimizing behaviors and routines that result in better performance. Times of scarcity can create organizations that are much more likely to engage in cost-cutting measures to improve their performance (Schoar & Zuo, 2017). Firms need to continuously evaluate the added value of their current resources, and divest them if need to generate the required slack to obtain superior resources (Sirmon & Hitt, 2003). Firms that are founded during high munificence are likely to be less critical than firms founded during scarcer times, and will therefore be less active in laying of human capital, divesting noncore businesses or spinning off specific assets that generate subpar returns (Sirmon, Hitt, & Ireland, 2007). Firms founded during scarcity are therefore likely to perform much better when the munificence in their environment increases and new opportunities open up.

Third, low munificence at founding increases the need for firms to manage their resources carefully, as they might not be readily available at all times (Sirmon et al., 2007). The development of managerial skills and resource handling capabilities is therefore likely to be superior in scarce environments (Keats & Hitt, 1988). Firms founded in munificent times have fewer needs to develop in-house capabilities, as their environment allows them to outsource various capabilities more easily. In the cases where resources and capabilities do need to be outsourced, limited opportunities in the founding environment cause organizations to pursue tighter connections with external parties as a buffer against their scarce environment (Zhang, Tan, & Tan, 2016), providing them with additional unique resources that can be exploited later. These factors combined contribute to preparing firms founded during scarcity much better for future times than firms found during more munificent periods. Therefore:

H1: The level of environmental munificence at the time of firm founding has a negative relation with future firm performance.

Founding and current munificence

One of the predominant characteristics of imprinting effects is their persistence in organizations regardless of subsequent changes in the environment (Marquis & Tilcsik, 2013; Stinchcombe & March, 1965). Imprinting effects are therefore more likely to be noticeable when the environment drastically changes. Conversely, when the environment remains static, imprinting effects are likely to indistinguishable from contemporary influences. The impact from imprinting is therefore likely to increase when contemporary conditions diverge further from founding conditions.

Moreover, imprints are indicative of the behaviors that are appropriate for a given context, and are therefore a reflection of the environment from the time of imprinting (Marquis & Tilcsik, 2013; Stinchcombe & March, 1965). When the environment changes imprints can become unsuitable for the new context. For example, firms founded during the communist regime in formerly communist countries faced severe difficulties when forced to adapt to a new free-market environment due to their imprints (Kriauciunas & Kale, 2006). The more the context changes, the greater the chance that organizational imprints are no longer appropriate. This could cause a misfit between the firm and its environment, which would be detrimental to firm performance. Therefore:

H2: The difference between founding and current munificence has a negative relation with firm performance.

Direction of munificence changes

The munificence of an organizations' environment is unlikely to remain identical over time. However, the direction in which munificence changes can influence the way imprinting effects manifest. Increasing munificence is generally indicative of a growing industry and implies the emergence of new opportunities, while decreasing munificence entails a decline in opportunities and room for organizational decision making (Koka, Madhavan, & Prescott, 2006). Since imprints are observable through the actions of organizations (e.g. Sapienza et al., 2006; Shinkle, Kriauciunas, & Hundley, 2013)), reducing the decision space of organizations is likely to inhibit the effects from imprinting making (Yasai-Ardekani, 1989).

When there is high munificence, the opportunity for imprints to become detrimental increases. For example, firms founded during munificent times tend to hold higher levels of organizational slack (Sharfman, Wolf, Chase, & Tansik, 1988). However, structurally employing unutilized slack is frequently detrimental to performance. Slack can be used by managers to pursue private goals that are not in line with the owners of the firm, such as empire building (Jensen & Meckling, 1976). The existence of slack can also serve to dissuade firms from divesting unprofitable projects (Staw, Sandelands, & Dutton, 1981), or it can act as a waste of efficiency in general (Williamson, 1964). Slack might aid firms during times of scarcity to provide a financial buffer of working capital, as the environment will be lacking in available resources. But when munificence increases the usefulness of slack diminishes. Having too much slack then becomes a waste in efficiency, as the capital could be repurposed towards avenues that generate more profitability (D'aveni, 1989).

We also know from prior work that the leverage ratio of listed firms tends to be stable over time, regardless of its appropriateness (Hanssens, Deloof, & Vanacker, 2016; Lemmon, Roberts, & Zender, 2008; Welch, 2004; Wu & Yeung, 2012), which strongly implies that this characteristic is imprinted in organizations (Levinthal, 2003). These debt levels tend to be higher for firms founded during times of munificence, as investors tend to be more conservative and prevent firms from adopting large levels of debt during times of scarcity (Perez-de Toledo, Giraldez-Puig, & Hurtado-Gonzalez, 2016). But having structurally higher debt levels can be detrimental to firm performance, as a high debt-to-equity levels result in larger interest payments for organizations, thereby lowering their profitability (Weiner & Mahoney, 1981). High debt levels also limit the capacity of firms to honor their contracts (Banerjee, Dasgupta, & Kim, 2008), limiting a firms capacity to respond to new opportunities if munificence increases.

Finally, firms founded during scarcer times also tend to make use of bricolage, the capability of "making do with whatever is at hand" by applying combinations of the resources at hand to new problems and opportunities (Miner, Bassof, & Moorman, 2001; Weick, 1993). Scarce founding conditions therefore frequently force organizations to develop capabilities that allow them to recombine resources for new purposes (Baker & Nelson, 2005). When munificence increases new resources become available, and the capacity to use bricolage makes firms from scarcer times better equipped to exploit these new opportunities.

The effects of munificence or scarcity at the time of founding are therefore likely to be contingent on how munificence develops over time. When munificence increases, the negative performance effects from imprinting are likely to be more pronounced, while they are expected to disappear as munificence decreases. Therefore:

H3a: The level of environmental munificence at the time of firm founding has a negative relation with future firm performance if munificence increased since founding.

H3b: The difference between founding and current munificence has a negative relation with future firm performance if munificence increased since founding.

H4a: The level of environmental munificence at the time of founding has no effect on future firm performance if munificence decreased since founding

H4b: The difference between founding and current munificence has no effect on future firm performance if munificence decreased since founding.

3.3 METHODOLOGY

Sample

We collected data from a number of different sources to test our hypotheses. We started by constructing a sample of publicly listed firms that were founded in the US in the period between 1997 and 2012. The benefit of this time period is that it provides a sufficiently large time lapse to track imprinting effects still having adequate access to historical data available. To incorporate heterogeneity in founding conditions, we focused our analysis on the founding conditions of firms at the industry level. At the same time, since all firms are founded in the US they still exhibit a degree of commonality, which can help to reduce the influence of some potential confounding effects that occur at a more global level.

We identified the firms in our sample by searching for publicly listed firms based on their founding year and location using Orbis, a database that tracks information on close to 180 million private and public organizations worldwide. However, firm-level data in Orbis is restricted to the year 2006 and onwards. We therefore cross-referenced the firms we found with CUSIP codes from Compustat, a database that documents more fine-grained firm level characteristics of publicly listed firms over a longer time period, but does not track firm founding information. Our initial selection criteria yielded 2988 firms that were suitable for analysis, for which we collected yearly observations for all firms where possible. After discarding observations with missing data, our sample contained 1818 firms with 9426 firm year observations for our hypothesis testing.

Variables and methodology

The key variable of interest for our hypotheses is that of the environmental munificence of the organizations. To operationalize munificence, we employed the common measure of industry growth on the industry level (Dess & Beard, 1984; Nielsen & Nielsen, 2013), based on chain-type quantity indices for value added (BEA; 2017). This operationalization serves as a good indicator for the growth of an industry compared to the national aggregate (Moyer, Planting, Fahim-Nader, & Lum, 2004).

For each firm-year observation we collected data both for the founding year, and the year where we measure our firm-level variables. All of our analyses include both founding and current munificence variables, to control for the contemporary influences of munificence (Geroski et al., 2010). We collected the data on environmental munificence from the Bureau of Economic Analysis. The correlation between current and founding munificence in our data is only 0.338, indicating that the munificence of the environment experiences significant changes in our chosen sample period.

For our hypotheses we were interested in performance of firms across time. In accordance with prior work on organizational performance, we operationalized this variable in two steps. First, we calculated each firm's yearly profitability by dividing net returns by its total assets to calculate their return on assets (ROA). Then, to correct for skewedness in our distribution, we therefore took the log of 1 + ROA as an adjustment.

We also included some control variables in our analyses. First, we controlled for organizational age, as the age of the firm might have an impact on the strength of imprinting effects (Marquis & Tilcsik, 2013). We also controlled for size, operationalized as logged total assets, since larger firms are more susceptible to imprinting due to their larger amount of institutionalized practices and routinized behaviors (DiMaggio & Powell, 1983; Nelson & Winter, 1982). To ensure that we are not simply capturing population ecology effects, we controlled for the density of organizations by taking the total number of firms per industry, with alternative operationalizations of number of firms per industry per founding state as a robustness test (Anderson & Tushman, 2001; Carroll & Hannan, 2000). Finally we created industry dummies for separate industries based on 2-digit SIC codes.

Since there is a significant risk of survivor bias in our sample, we need to correct for their effect. We therefore employed two-stage Heckman selection to test our hypotheses (Heckman, 1976, 1979), using the "SampleSelection" package in statistical software analysis tool R, with Rstudio version 1.0.143. In this approach, we use firm survival as our dependent variable in the first stage, with munificence, firm age, size and industry density all serving as first-stage predictors.

Since our sample contains firms that are founded in different industries, have varying founding years and diverse lifespans, we also conducted robustness tests using an unbalanced panel data approach (Biørn, 2004). We conducted our analyses with the "plm" package using R. All results were in line with our earlier findings. For all models we analyzed the variance inflation factors (VIF) to determine any potential problems with multicollinearity. All VIF scores were below 10, indicating that multicollinearity was not an issue with our dataset (Kutner, Nachtsheim, Neter, & Li, 2005).

3.4 RESULTS

We present our analysis of founding munificence on firm performance in Table 3.1. Model 1 includes only the controls, while Model 2 contains our findings with regard to our Hypothesis 1. The model shows that founding munificence has a significant negative effect on future firm performance, providing support for Hypothesis 1. The model also shows a positive significant effect for current munificence, in line with prior work that

TABLE 3.1

Founding munificence on organizational performance

S1: Survival	Model 1		Model 2		Model 3	
Constant	-0.187 (0.047)	***	-0.183 (0.048)	***	-0.199 (0.047)	***
Age	0.105 (0.006)	***	0.108 (0.000)	***	0.108 (0.006)	***
Size	0.198 (0.016)	***	0.201 (0.000)	***	0.200 (0.016)	***
Density	-0.000 (0.00)	***	-0.000 (0.000)	***	-0.000 (0.000)	***
Current munificence			-0.004 (0.002)	*		
Founding munificence			-0.126 (0.154)			
Munificence difference					0.001 (0.001)	
S2: Performance						
Constant	-0.376 (0.086)	***	-0.352 (0.080)	***	-0.353 (0.082)	***
Age	0.002 (0.005)		0.002 (0.004)		0.001 (0.005)	
Size	0.107 (0.010)	***	0.105 (0.009)	***	0.105 (0.009)	***
Density	-0.000 (0.000)	**	-0.000 (0.000)	**	-0.000 (0.000)	**
Current munificence			0.000 (0.000)			
Founding munificence			-0.001 (0.000)	***		
Munificence difference					-0.001 (0.000)	**
R^2	0.1499		0.1522		0.1518	
N	6910		6775		6789	

*** $p < 0.01$; ** $p < 0.05$;. * $p < 0.10$

Standard errors in parentheses.

Industry controls have been omitted

contemporary munificence is generally a positive antecedent to firm performance (e.g. Castrogiovanni, 1991).

We present our findings on the relation between munificence changes and firm performance in Model 3. The model shows that changes in munificence have a significant negative effect on future firm performance, providing support for Hypothesis 2.

To determine how munificence affects organizational outcomes, we conducted two additional analyses, where we split the sample observations based on whether munificence increased or decreased compared to the time of founding. Table 3.2 reports our results for observations that saw an increase in munificence compared to the time of founding, while Table 3.3 reports the sample with decreasing munificence. The results from these tables indicate that there is no imprinting effect when munificence decreases compared to the time of founding, while imprints remain significant for the increase in munificence condition.

3.5 DISCUSSION

This study set out to examine the consequences of founding munificence on future firm performance. We observe that founding munificence negatively affects the future

TABLE 3.2

	Increasing munificence			
S1: Survival	Model 1		Model 2	
Constant	-0.168 (0.070)	*	-0.178 (0.067)	**
Age	0.120 (0.008)	***	0.120 (0.007)	***
Size	0.180 (0.002)	***	0.177 (0.021)	***
Density	-0.000 (0.000)	***	-0.000 (0.000)	***
Current munificence	-0.009 (0.003)	**		
Founding munificence	-0.002 (0.002)			
Munificence difference			0.000 (0.002)	
S2: Performance				
Constant	-0.345 (0.097)	***	-0.339 (0.101)	***
Age	0.002 (0.005)		0.002 (0.006)	
Size	0.104 (0.010)	***	0.104 (0.010)	***
Density	-0.000 (0.000)	*	-0.000 (0.000)	
Current munificence	0.001 (0.001)			
Founding munificence	-0.001 (0.000)	*		
Munificence difference			-0.001 (0.000)	**
R^2	0.1512		0.1515	
N	3883		3883	

*** $p < 0.01$; ** $p < 0.05$;. * $p < 0.10$

Standard errors in parentheses.

2-stage Heckman, stage 1 is survival, stage 2 is performance

Industry controls have been omitted

performance of a firm. With this paper we add to the literature on imprinting and environmental munificence, and we propose to make three contributions.

First, our paper shows that the magnitude of imprinting effects is contingent on the changes in the environment between current and founding conditions. Since the manifestation of imprinting occurs through a reflection of founding conditions, any proper evaluation of imprinting effects can only occur when there is discernable change between the founding and current environment. Whereas imprinting research thus far primarily focused on time as a contingency factor in evaluating imprinting effects, by means of imprinting decay (Marquis & Tilcsik, 2013), we show that the magnitude of environmental changes is an important predictor as well. Future work accounting for imprinting effects that are not dichotomous or categorical in nature can control for this contingency by incorporating the extent of environmental changes in their analysis.

Second, our paper demonstrates that the effects of imprinting are dynamic, and are dependent on how the source of the external imprint develops over time. This implies that it is not sufficient to account for the extent of changes in the environment of organizations, but the direction of changes as well. This discovery ties in with earlier work on firm "exaptation", the idea that firms can

TABLE 3.3

Increasing munificence

S1: Survival	Model 1		Model 2	
Constant	-0.221 (0.074)	**	-0.222 (0.074)	**
Age	0.091 (0.009)	***	0.091 (0.009)	***
Size	-0.023 (0.024)	***	0.232 (0.024)	***
Density	-0.000 (0.000)	**	-0.000 (0.000)	**
Current munificence	0.001 (0.003)			
Founding munificence	-0.001 (0.003)			
Munificence difference			-0.001 (0.003)	
S2: Performance				
Constant	-0.254 (0.140)		-0.256 (0.140)	
Age	-0.004 (0.007)		-0.004 (0.010)	
Size	0.104 (0.018)	***	-0.095 (0.018)	***
Density	-0.000 (0.000)		-0.000 (0.000)	
Current munificence	-0.000 (0.001)			
Founding munificence	-0.001 (0.001)			
Munificence difference			0.000 (0.000)	
R^2	0.1518		0.1502	
N	2906		2906	

*** $p < 0.01$; ** $p < 0.05$;. * $p < 0.10$

Standard errors in parentheses.

2-stage Heckman, stage 1 is survival, stage 2 is performance

Industry controls have been omitted

repurpose earlier developed routines or capabilities into new sources of competitive advantage in response to changes in the external environment (Gould, 1991). Prior work has shown that due to their enduring nature, imprinting effects are a prime application for exaptation (Marquis & Huang, 2010), and our findings provide a clear indication that creating current utility for imprinted effects is only feasible under certain developments of the external environment.

Third, our research contributes to the environmental munificence literature (Castrogiovanni, 1991; Goll & Rasheed, 2004; Yasai-Ardekani, 1989), by demonstrating the role of environmental munificence on organizational imprinting. We show that founding munificence is a detriment to future firm performance, but perhaps more importantly, we also show that a lack of munificence puts a damper on the extent to which imprinting effects can manifest. This insight provides a potential explanation for a lack of results in other imprinting studies, and demonstrates that the lack of observable imprinting effects does not necessarily imply their absence, and cases of low munificence be explained by the inability for these imprinting effects to manifest.

Overall, our paper aids in our understanding not only how organizational outcomes are in part determined by their founding environment, but also how various contingencies can shape the form and extent of imprinting effects.

Limitations and future research

The findings of this paper should be seen in light of several limitations that suggest possible opportunities for further research. First, we tested our hypothesis by examining munificence at the industry level, and conducted robustness tests with munificence at the national level. While we believe that this level of analysis provides support for our hypotheses, we are unable to determine the true scope of activities for our organizations. It is therefore possible that some firms might operate in industries with different conditions. Similarly, the internationalization behavior of organizations could also create an external environment that is distinct from our operationalization. For example, born global firms might have an effective founding context that differs from their home country. Future research could further more thoroughly examine the area of operation to determine the source of founding conditions.

Second, our research is currently limited to examining imprinting effects that stem from the external environment. A large body of literature has shown that the founder of an organization can also exert a strong imprinting effect (e.g. Baron, Burton, & Hannan, 1999; Johnson, 2007). Future research could adopt a dual approach that accounts for both the imprints from the environmental and those of the founder in conjunction.

Conclusions

This study explores connections between environmental munificence at the time of founding and future firm performance of the firm through the lens of imprinting theory. Our results show that munificent founding conditions are detrimental to future firm performance, and we provide empirical support for potential mechanisms that might cause this. We also highlight that changes in external conditions similarly hinder organizational future performance. Finally, we show that the directionality of changes in the external environment is an important precursor to evaluating imprinting effects. Overall, our research emphasizes the importance of contextualizing current performance in light of historical conditions.

CHAPTER 4

VICEROYS OR EMPERORS? AN INSTITUTION-BASED PERSPECTIVE ON MERGER AND ACQUISITION PREVALENCE AND SHAREHOLDER VALUE

Abstract

We study how cross-country variance in institutions that aim to address core agency problems influences consequential strategic decisions of firms around the world. Scholars frequently argue that the interests of minority shareholders are threatened by merger and acquisitions (M&As) due to principal-agency problems. Rather than acting shareholders' best interests, managers potentially act as *viceroys*, using M&As to cushion themselves from risk and extract more pay. Yet, equally salient is the issue of principal-principal agency, where controlling shareholders can behave as *emperors* who use M&As to siphon off assets and profits, and appropriate wealth of shareholders with fewer control rights. Taking an institution-based perspective on these 'viceroy' and 'emperor' problems, we conjecture that institutions aimed to address these agency problems can generate the desired outcome regarding M&A prevalence, but may also produce unintentional negative consequences for shareholder value as a side-effect. Empirical evidence covering M&As from 73 countries supports our hypotheses.

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4.1 INTRODUCTION

Management scholars have found that the environment places a great deal of constraint on the strategic options open to firms (for summaries, see Heugens and Lander, 2009; Scott, 1987; Tolbert and Zucker, 1999). Particularly when they restrain or drive consequential strategic decision-making, such as mergers and acquisitions (M&As), environmental characteristics can greatly impinge upon the strategic expansion and performance of firms. Scholars have therefore generated important insights about how the environment – for example, in terms of environmental uncertainty (e.g., Schilling and Steensma, 2002), network and resource dependencies (e.g., Pfeffer and Salancik, 1978), and cross-national differences in institutions (e.g., Dikova, Sahib and Van Witteloostuijn, 2010) – influences M&A prevalence and performance.

Yet, little systematic research has built on institutional theory to explain how institutions that aim to address a central conundrum in M&As – i.e., whether M&As are a vehicle for maximizing shareholder value or for serving the self-interests of managers at the shareholders' expense (Haleblian, Devers, McNamara, Carpenter and Davison, 2009) – influence the prevalence and value of M&As. In fact, scholars recently observed that "institutional theory has been remarkably absent from M&A research" (Ferreira, Santos, de Almeida and Reis, 2014: 2556). As a result, we still have limited understanding of whether institutions serve to assure that M&As increase shareholder value, for example by effectuating gains in efficiency and market power, optimizing asset redeployment or disciplining management (e.g., Capron, Dussauge and Mitchell, 1998; Jensen, 1986). Or, whether institutions allow executives and other stakeholders to engage in M&A activity for self-serving reasons (e.g., Agrawal and Walkling, 1994; Deutch, Keil and Laamanen, 2007). This is surprising, because prior research indicates that countries vary widely in the extent to which they have institutions in place to address such concerns (Rossi and Volpin, 2004). We therefore seek to understand how different forms of institutional constraint that aim to address two types of agency problems affect M&A prevalence and shareholder value.

The principal-agent problem is central to our understanding of firms' M&A behavior and performance (e.g., Desai, Kroll and Wright, 2003; Jensen, 1986; Parvinen and Tikkanen, 2007). Bounded by fiduciary duties, managers are expected to act as stewards of the firm's shareholders, and run it in their absence while striving for maximum shareholder value (Davis, Schoorman and Donaldson, 1997; Donaldson, 1990). As part of their duties, these stewards are expected to seek out M&A targets that provide synergies with the acquirer and lead to wealth gains. Yet, management scholars frequently emphasize that managers often engage in M&As for self-serving reasons (Devers, McNamara, Haleblian, and Yoder; Eisenhardt, 1989; Sanders, 2001; Shapiro, 2005), for example to increase the size of the firm, which is strongly related to managerial compensation (Tosi and Gomez-Mejia, 1989; Wright, Kroll and Elenkov, 2002), or to diversify cash flows, which reduces the risk of dismissal due to exceptionally weak performance (Amihud and Lev, 1981).

The extent of the principal-agent problem depends on the accountability of managers towards shareholders (Jiraporn, Kim, Davidson and Singh, 2006), and the existence of legal institutions that govern this accountability by shifting power from managers to shareholders (Guillén and Capron, 2015). These institutions, commonly conceptualized as *anti-director rights* (ADR) (Spamann, 2009), serve to empower shareholders, for example by facilitating the voting process for new director appointments, or reducing the percentage of votes required to call for an extraordinary general meeting of shareholders (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1998). Prior research in corporate governance has emphasized that the presence of these control mechanisms is necessary to prevent managers from engaging in self-benefitting behavior. Yet, the antecedents for these control mechanisms are institutionally derived, and as such differ across jurisdictions (Aguilera and Jackson, 2003; Young, Peng, Ahlstrom, Bruton and Jiang, 2008). In countries where these institutional regulations are absent, shareholders therefore run greater risk that they see their appointed stewards develop into viceroys who rule the firm as a personal fiefdom, and use it to extract above-market wages and other perquisites (Devers, et al., 2013). We metaphorically refer to this issue as the *viceroy problem*.

However, while the classic principal-agent problem has received much attention in the M&A literature, the viceroys are frequently no more than vassals, subordinate to controlling shareholders that form the ulterior ruling party. Reigning as emperors over the organization, the influence of controlling shareholders can lead to a different type of agency problem: i.e., the principal-principal problem. This problem emerges when controlling shareholders (e.g., wealthy entrepreneurs or founding families) extract *private benefits of control* from the firm, defined as pecuniary gains that do not accrue to minority shareholders (Bethel, Hu and Wang, 2009; Dharwadkar, George and Brandes, 2000; Dyck and Zingales, 2004; Young et al., 2008). For example, controlling shareholders can resort to tunneling, whereby assets are sold from the focal firm to another firm under their control at prices below market value (Shleifer and Vishny, 1997; Bae, Kang and Kim, 2002). Or, controlling shareholdes can pay significant premiums for targets in which they enjoy greater cash flow rights, thereby directly transferring wealth from the minority shareholders to themselves (Albuquerque and Schroth, 2010; Dyck and Zingales, 2004).

Besides running the risk of being expropriated by viceroys, smaller shareholders may therefore also fall victim to larger shareholders, especially when large controlling blockholders emerge as the result of an acquisition (Holderness, 2003). Controlling blockholders can then act as emperors, using their controlling share of the voting rights to siphon off the firm's assets and profits without regard for the interests of non-controlling parties. We metaphorically call this the *emperor problem*. The severity of this problem is contingent on the accountability that majority shareholders have towards minority shareholders (Dharwadkar et al., 2000). Similar to the viceroy problem, governments regulate the emperor problem through legal institutions, also known as *anti-self-dealing laws* (ASD), as conceptualized by Djankov, La Porta, Lopez-de-Silanes, and Shleifer (1998). Examples of the institutions that address principal-principal problems include laws that govern the disclosure of self-dealing transactions and minimally required levels of approval for M&A deals from minority shareholders.

While both agency problems are important, we know little about the legal conditions that determine their influence on M&A activity and how they affect post-M&A abnormal returns to shareholders. Since countries vary widely in terms of the development of dedicated institutions for governing and structuring M&A activity, we expect that the global M&A context will be far from universal. Instead, jurisdictions differ in the extent to which they have developed institutions that address managerial empire building (i.e., the viceroy problem) and minority shareholder expropriation by controlling shareholders (i.e., the emperor problem). However, the two problems do not always coincide, and institutions that target one problem might neglect the other (Dyck and Zingales, 2004; La Porta, Lopez-de-Silanes and Shleifer, 1997). In this paper, we therefore set out to develop an institution-based perspective on M&As, and argue that the prevalence and performance of M&As is contingent on the presence of institutions that accost the viceroy and emperor problems.

More specifically, we suggest that the institutional context influences variance in M&A prevalence across markets in different ways, depending on the extent to which institutions address the viceroy and emperor problems. Institutions that constrain the self-serving interests of managers likely reduce the prevalence of M&As because managers will enjoy fewer opportunities to pursue M&As for non-financial motives. In contrast, legal constraints to prevent emperor problems will likely increase M&A prevalence because they give assurance to target firms' minority shareholders that the firm in which they are invested can be sold without fear of their wealth being siphoned away, making them less likely to engage in attempts to block deals (Bethel et al., 2009).

However, we also suggest that these institutional measures come with critical side-effects; institutions do not only constrain M&A behavior, they also limit managerial discretion, thereby likely decreasing rather than increasing the extent to which shareholders can expect benefits from M&As. Institutions that address the emperor problem also have additional ramifications. By promoting a stronger information disclosure regime, more developed institutions lead to targets being sold for prices that are closer to their true value. This diminishes arbitrage opportunities and informational advantages for experienced acquirers, and ultimately diminishes, rather than enhances, the value accruing to the acquirer's minority shareholders.

This paper makes three contributions. First, the institution-based view we develop provides novel insights about the influence of the viceroy and emperor problems on M&A prevalence and shareholder gains. Our findings indicate that the viceroy problem (cf. Eisenhardt, 1989; Jensen, 1986) needs to be nuanced and contextualized. Empire-building and risk-reduction through M&As are less likely to be a problem in contexts that have developed constraints on managerial power, but these constraints can also hurt shareholder value by taking away from the discretion managers need to pursue value-creating initiatives. Second, while larger shareholders have incentives to strictly monitor managers and reduce the viceroy problem (Himmelberg, Hubbard and Palia, 1999), they themselves can also engage in behavior that is harmful for minority shareholders (Young et al., 2008). We find that a strong institutional framework that focuses on preventing emperor problems leads to an increase in M&A activity and a decrease in M&A performance. Strong institutions seem to provide target organizations' minority shareholders with assurances to agree to deals without fear of their wealth being siphoned away. Yet, such leveling of the legal playing field also makes it more difficult for acquirers to extract shareholder value from M&As. Third, while a number of meta-analyses of the M&A literature have been instrumental in assimilating the field's findings and shaping its research agenda (e.g. Datta, Narayanan and Pinches, 1992; King, Dalton, Daily and Covin, 2004), we present findings that combine conventional empirical analyses with a novel meta-analysis that capitalizes on a recent influx of international empirical research on M&As. We demonstrate how firm-level factors are conditioned by contextual institutional factors, and thereby reveal not only a need for greater consideration of the context in which M&As are conducted, but also of the limitations of transposing empirical findings on the M&A behavior of American firms to other institutional contexts.

4.2 THEORETICAL BACKGROUND

The prevalence of M&As

Globally, expenditure on M&A activity reached a total of about $31.8 trillion over the last decade (Dealogic, 2015), making M&As one of the most salient strategic phenomena in management (Cartwright and Schoenberg, 2006; Ferreira et al, 2014; Martynova and Renneboog, 2008). Yet, M&A behavior varies widely across contexts. Countries like the U.S. and U.K. enjoy longstanding M&A traditions, whereas China has only recently begun to experience a rapid increase in M&As (Buckley, Clegg, Cross, Liu, Voss and Zheng, 2007). Meanwhile, firms expanding in countries like Belgium, Portugal and Spain seem to remain committed to organic growth strategies, and continue to lag behind firms in other Western countries in terms of M&A prevalence.

M&A scholars have considered a range of antecedents to explain growth through M&As (e.g., Agrawal and Walking, 1994; Barkema and Schijven, 2008; Folta, 1998; Harzing, 2002; Jensen, 1986; Roll, 1986). However, following an in-depth review of the literature, Haleblian and colleagues (2009) concluded that the field focuses predominantly on firm-level characteristics. Several recent studies nevertheless show that factors that characterize the institutional context also are important for understanding M&A behavior (e.g., Beccalli and Frantz, 2013; Bris and Cabolis, 2008; Clougherty, 2005). This work suggests that the M&A process, ranging from initiation through deal completion to implementation, is contextually bound. Scholars have stressed, for example, that the institutional context, at least partially, explains why firms choose M&As over alternatives like joint ventures or strategic alliances for their corporate development (e.g., Drees and Heugens, 2013), how long firms take to complete deals (e.g., Dikova et al., 2009), and how successful firms are in M&As (e.g., Zhang, Zhou and Ebbers, 2011). Zhang et al. (2011) found that M&As are less likely to succeed if the institutional quality of the target country is low, while Marquis and Huang (2010) demonstrated how differences in institutional conditions at the time of organizational founding imprint heterogeneous propensities towards acquisitions as a growth vehicle. Moreover, scholars identified a variety institutional characteristics that shape the M&A process, such as access to credit (Di Giovanni, 2005), quality of accounting standards (Bris and Cabolis, 2008), strictness of antitrust laws (Clougherty, 2005), enforcement of laws and regulations (Meyer, Estrin, Bhaumik and Peng, 2009), size of equity funds (Qui, 2008), regulatory quality (Beccalli and Frantz, 2013), and state intervention levels (Serdar Dinc and Erel, 2013).

Together, these findings suggest that specific institutions can help or hinder the effectuation of M&A transactions, over and above the influence ascribed to organizational factors. However, institutional theory still hardly is used as an explanatory framework in

M&A research (Ferreira et al., 2014), and we currently lack an institutional framing that addresses M&A prevalence as a function of state-level attempts to ameliorate viceroy and emperor problems.

Shareholder gains post M&As

Whereas M&A activity has continued to rise globally, scholars repeatedly emphasize that most M&As fail to deliver on the goals set for them. The first meta-analysis of the field found that shareholders of the "bidding or acquiring firms do not realize significant returns from M&As" (Datta et al., 1992: 80). More recent work shows that this bleak state of affairs continues to typify most M&As (e.g., Moeller, Schlingemann and Stulz, 2005). To help understand this, many scholars have set out to explain variance in M&A returns, often captured by various forms of abnormal returns – i.e. the difference between actual and expected returns to shareholders over a set period of time, as a result of an M&A event (e.g., Cording, Christmann & Weigelt, 2010).

Scholars point to a wide range of benefits associated with M&As, such as rapid growth, gains in market power, timely access to new resources, and opening up new product and geographic markets (Penrose, 1959; Shimizu, Hitt, Vaidyanath and Pisano, 2004). Targets can also unlock potential synergies with their acquirers, particularly when targets are complementary to their acquirers in terms of markets and strategies (e.g., Kim and Finkelstein, 2009). Moreover, complementary scientific and technological knowledge can both contribute to post-merger innovative performance (Makri, Hitt and Lane, 2010). Over time, a body of work has emerged that attempts to explain when these benefits are more likely to occur. Much of this work emphasized organizational and deal factors, such as relatedness of the target to the acquirer (e.g., Capron, Hulbert, Farley and Martin, 1998), the method of payment used for the deal (e.g., Hayward and Hambrick, 1997), and prior acquisition experience of the acquirer (e.g., Haspeslagh and Jemison, 1991). However, while many organizational, inter-organizational and deal characteristics have been stressed, why M&As lead to gains or losses to shareholders is still largely unclear. In fact, based on an extensive meta-analysis, King et al. (2004) found that the most widely studied factors in M&A research hardly capture any variance in M&A outcomes. They concluded that "despite decades of research, what impacts the financial performance of firms engaging in M&A activity remains largely unexplained" (p. 198).

In an effort to explain more variance in M&A performance, an emergent stream of research has shifted attention to factors capturing the contexts in which deals are done, including economic liberalism (Aguilera and Dencker, 2004), freedom of the press (Epstein, 2004), the prevalence of labor unions (Tian and Wang, 2015), quality of labor protection laws (Aguilera and Dencker, 2004), and corruption due to weaknesses of the legal system (Brockman, Rui and Zou, 2013). Moreover, a meta-analytic study focusing on cultural differences between acquirers and targets showed that, contingent on the degree of relatedness between firms, such differences can either help or hurt M&A performance (Stahl and Voight, 2008).

Similar to the work that scrutinizes the antecedents of M&A prevalence, the findings of studies that seek to explain the M&A-abnormal returns relationship similarly reveal that it is more contextually bound than originally assumed. The fact that institutional factors have largely been omitted from prior meta-analyses might therefore explain that these earlier studies, centered mostly on firm-level characteristics, captured relatively little of the extant variance in the distribution of M&A – performance effects (e.g., Datta et al., 1992; King et al., 2004). We fill this lacuna by building on the emerging stream of context-focused M&A research, theorizing how M&A prevalence and performance are influenced by country-level institutions that have been developed to deal with viceroy and emperor problems.

An institution-based view on M&As: Ameliorating the viceroy problem

Scholars often argue that the viceroy problem is rampant in M&A dealing because entrenched managers have strong incentives to engage liberally in M&A activities for self-serving reasons (Desai et al., 2003; Devers et al., 2013; Jensen, 1976). M&As serve managers by building larger 'empires' – creating larger firms that are associated with increased managerial status, power, and compensation (Devers et al., 2013; Jensen, 1986; Williamson, 1964). Moreover, M&As serve as a risk avoidance tool for managers because increased cash flow diversification protects managers against dismissal on account of poor performance in one business, allowing them to lead "the quiet life" (Bertrand and Mullainathan, 2003; Hicks, 1935). As in the classic principal-agent relationship, the severity of the viceroy problem is contingent on the extent to which managers are held accountable to the firms' shareholders (Jiraporn et al., 2006). Corporate governance research emphasizes that strict control is needed to prevent managers from acting on their self-serving tendencies (Dominguez-Martinez, Swank and Visser, 2006).

Given these stark conclusions, it is not surprising that many countries have attempted to develop legal measures against viceroy problems, predominantly by shifting power from managers to minority shareholders (Guillén and Capron, 2015; Jackson, 2010; Peng, 2004). One commonly used way of capturing these measures is the *anti-director rights index* (or ADR index), developed by La Porta and his co-authors (1998) and later revisited by Djankov and his associates (2008). This is a formative index that captures the extent to which (minority) shareholders are protected against managerial opportunism across a variety of national jurisdictions. The index is composed of country-level elements that capture shareholder influence, such as the adoption of provisions allowing for proxy voting, the prerequisite requirement to deposit shares prior to shareholder meetings, the adoption of measures allowing cumulative voting, the presence of a mechanism protecting the rights of oppressed minorities, and the ease of calling for an extraordinary general meeting of shareholders (La Porta et al., 1998). Collectively, these elements indicate the extent to which legal requirements are in place that seek to curtail self-motivated tendencies of managers (Djankov et al., 2008; La Porta et al., 1998; Spamann, 2009). For example, Leuz, Nanda and Wysocki (2003) found that the ADR index relates negatively to managerial use of earnings management to conceal poor firm performance, whereas Aguilera and Cuervo-Cazurra (2004) found that it positively relates to the implementation of codes of good governance.

The presence of strong ADR makes it more difficult for managers to pursue M&As for self-serving purposes. Moreover, even if managers seek to pursue M&As for private benefit in high-ADR contexts, they are more likely to be blocked by legal constraints. Research on cross-border M&A activity suggests that ADR can be effective. Scholars found that firms from countries with better investor protection were more likely to acquire firms in countries where investor protection is weaker (Coffee, 1999; Rossi and Volpin, 2004). These findings imply that managers from strong ADR contexts search across borders for M&A opportunities in weaker ADR contexts, possibly to avoid strife with the well-protected minority shareholders of domestic targets. We therefore predict that M&A prevalence in a given country is negatively related to the strength of the legal measures that a country has taken to combat viceroy problems.

Hypothesis 1a: The stronger the anti-director rights in a country, the lower the prevalence of M&As in that country.

While governments design these legal measures deliberately to prevent managers from acting on their private interests, the institutions captured by the ADR index are also somewhat blunt instruments. When they are being wielded, they inevitably cause collateral damage; especially in the form of restricting the discretion managers need to push through value-creating initiatives (Agrawal and Knoeber, 1996; Mahoney, 1995). For example, when top managers make important corporate decisions such as M&As, they generally value high financial flexibility to make consequential decisions quickly (Graham and Harvey, 2001). Stronger ADR deprive top managers of this flexibility (Kusnadi and Wei, 2011). Moreover, giving managers greater freedom to act on their own accord can help make them forego the 'quiet life' (Hicks, 1935), and develop enterprising initiatives that are closer to the optimal risk-return frontier (Himmelberg et al., 1999; Li and Tang, 2010). However, stronger ADR also increases the opportunities for shareholders to vote on, and potentially hinder, decisions regarding important corporate matters, such as M&As (Shleifer and Vishny, 1997).

Managers are thus not only likely to conduct fewer M&As in contexts where ADR are strong, they also face greater constraints when they do engage in M&As. Faced with strict ADR institutions, managers can exercise less discretion regarding M&A decisions in these jurisdictions (Finkelstein and Boyd, 1998). Curtailing the viceroy problem can therefore result in the unwanted side effect of making managers forego potentially profitable M&As. We propose that inhibiting this freedom can dissuade managers from acquiring potentially synergistic targets that could lead to superior shareholder value. In other words, the presence of strong ADR prevents managers from acquiring potentially lucrative targets. Thus, we propose that stronger legal institutions designed to curtail viceroy-like behavior simultaneously prevent managers from pursuing potentially lucrative M&As. Thus, we predict:

Hypothesis 1b: The stronger the anti-director rights in a country, the weaker the M&A – abnormal returns relationship.

An institution-based view on M&As: Ameliorating the emperor problem

Surprisingly, the second agency problem that potentially affects M&As – the principal-principal problem that we refer to as the *emperor problem* – has received much less attention from M&A scholars (cf. Young et al., 2008). This problem occurs when controlling shareholders wantonly expropriate minority shareholders. Some observers have suggested that concentrated ownership can be an effective countervailing power that has the potential to address viceroy problems because large and undiversified shareholders have strong incentives to thoroughly monitor and restrain self-interested managers (Himmelberg et al., 1999; Maug, 1998; McConnell and Servaes, 1990). However, concentrated shareholders may have self-interested motivations of their own, which are ultimately detrimental rather than beneficial to the interests of minority shareholders. This emperor problem can even be more destructive for minority shareholders than the viceroy problem (McConnell and Servaes, 1990; Morck, Shleifer and Vishny, 1988; Young et al., 2008). Especially in contexts characterized by weak minority shareholder protection, such as in jurisdictions where the legislature, courts, and enforcement agencies are unable to check the power of economic elites, there may be strong incentives for controlling shareholders to engage in self-dealing. By transferring value from one organization they control to others in which they enjoy greater cash flow rights, controlling shareholders can expropriate the assets or profits of the former at the expense of its minority shareholders (Wruck, 1989).

When controlling shareholders can use the cash flow rights of shares that they own to appropriate financial returns in excess of what they are entitled to, they are able to realize so-called *private benefits of control* (Dharwadkar et al., 2000; Dyck and Zingales, 2004). These private benefits reflect a conflict of interest between controlling and minority shareholders, because such appropriation comes at the expense of minority shareholders' wealth and interests (Li and Qian, 2013; Young et al., 2008). The presence of private benefits of control is therefore an emblematic feature of the emperor problem (La Porta et al., 1998; La Porta, Lopez-de-Silanes, Schleifer and Vishny, 1999).

In the context of M&As, private benefits of control emerge when controlling shareholders use their influence to initiate M&As that are self-beneficial, in order to siphon off wealth from minority shareholders (Djankov et al., 2008; Enriques, 2000). Scholars have identified numerous means that enable controlling shareholders to expropriate minority shareholders. One frequently mentioned method for extracting private benefits is to have an acquiring firm that is fully under the control of one shareholder pay a significant premium for a target in which that shareholder has greater cash flow rights (Albuquerque and Schroth, 2010; Barclay and Holderness, 1989; Dyck and Zingales, 2004). This involves a net transfer of wealth from the acquirer's non-controlling shareholders to the controlling shareholder.

Majority shareholders also can extract private benefits of control in the post-merger integration period. For example, through so-called "*tunneling*", controlling shareholders transfer goods or assets to other entities they control at a price substantially below their market value (de Silanes et al., 2000). Controlling shareholders may also transfer losses from one organization to another unit under their control, in order to lower their private tax burdens (Conac, Enriques and Gelter, 2007). Acquiring another firm therefore enables controlling shareholders to transfer wealth from one entity to another, at the expense of minority shareholders. Moreover, when institutional shareholders have financial stakes in both bidding and target organization, they may have incentives to overpay in deals if their weighted average returns increase as a result (Bethel et al., 2009; Harford, Jenter, and Li, 2007).

While the M&A literature has focused predominantly on the viceroy problem, law and finance scholars have investigated how nation states address emperor problems, notably through the cultivation of institutional countermeasures (La Porta et al., 1997; 1998). Various countries have produced legal institutions that enforce minority shareholder rights and reduce information asymmetries, thereby constraining controlling parties and reducing the risk of self-dealing (Beck and Levine, 2008; Guillén and Capron, 2015). Similar to the ADR index, scholars have developed an index to capture the strength of the relevant legal institutions: the *anti-self dealing* (ASD) index (Djankov et al., 2008). This index consists of two components. The first includes legal means that prevent self-dealing *ex-ante*, such as the extent of obligatory disclosures regarding transactions, the necessity to obtain the approval of disinterested shareholders, and the requirement to obtain an independent review. The second component consists of ex-post countermeasures. These again include disclosure regulations, but also the potential to sue for damages and liabilities, the possibility of rescission, and access to evidence regarding any deals (Djankov et al., 2008). Law and finance scholars frequently employ the ASD index for example to establish the extent to which ASD measures can substitute for firm-level corporate governance (Renders, Gaeremynck and Sercu, 2010), to determine their consequences for investment efficiency in transparency-dependent industries (Dumev, Errunza and Molchanov, 2009), and to assess their effect on the cost of equity of publicly listed enterprises (Chen, Chen and Wei, 2009).

Having the recourse to ASD measures provides minority shareholders with some assurances that their wealth will not be siphoned away after a takeover. New investors may not be willing to take up a financial interest in a potential takeover target if they believe that the risk of expropriation through private benefit extraction is high. Once a deal has been reached, however, the only remaining resort for invested parties is to rely on the legal system and its dedicated ASD provisions (Benos and Weisbach, 2004). If this system is weak, shareholders will have little insurance that their wealth will not be siphoned away after a takeover, and their willingness to put the organization up as a potential M&A target will therefore be low. Since shareholders are presumably aware of this risk, they are much more likely to attempt blocking M&As that increase their exposure to these expropriation risks (Bethel et al., 2009). In response, potential target organizations from jurisdictions in which the risk of shareholder expropriation is high therefore sometimes choose to cross-list in countries offering stronger minority shareholder protection (Coffee, 1999; Stulz, 1999). This assures the shareholders of target organizations that their wealth will not be seized through acquisitions.

Since the strategic actions of an organization create uncertainty for shareholders about future outcomes (Bergh, Connelly, Ketchen and Shannon, 2014), shareholders tend to look for observable indicators that help them to mitigate the uncertainty they face (Spence, 2002). Through these signals, shareholders can reduce the information asymmetry they face vis-à-vis the organization (Heil and Robertson, 1991). In the context of M&As, ASD laws provide target shareholders with signals that assure them that their wealth will not be expropriated (Aguilera and Cuervo-Cazurra, 2004). One of the means through which ASD laws help to signal true acquirer intent is by necessitating various forms of disclosure, including the release of independent reviews and periodic filings (Djankov et al., 2008). ASD laws therefore help to reduce the level of information asymmetry that exists between buyer and target.

We thus expect M&As to be less prevalent in countries where ASD measures are weaker (cf. John, Freund, Nguyen and Vasudevan, 2010). When the shareholders of target organizations have a higher fear of expropriation, the resistance they exhibit towards takeovers tends to be stronger (Li and Qian, 2013). Conversely, target shareholders will be more willing to accept takeovers in countries when there are greater constraints on controlling shareholders extracting private benefits (Aguilera and Cuervo-Cazurra, 2004; Burns, Francis and Hasan, 2007). We therefore expect that stronger ASD measures facilitate the initiation of M&As, and increase their prevalence as an organizational growth mechanism. Thus, we predict:

Hypothesis 2a: The stronger the anti-self-dealing laws in a country, the higher the prevalence of M&As.

While the disclosure requirements in strong ASD jurisdictions might facilitate M&As, these requirements also extend to the broader market for corporate control and corporate assets, which might have implications for the profitability of acquisitions. Information asymmetries create differences between acquiring organizations, in terms of their capability to gather and interpret information regarding the future value of potential targets (Barney, 1988). In the absence of information asymmetries, similar expectations regarding target valuation will drive up stock prices of high-quality targets until the potential premium to be incurred by bidders approaches zero (Barney, 1988). Lower levels of information asymmetry are thus detrimental to the arbitrage and value creation opportunities facing experienced bidders (Capron and Shen, 2007), and post-merger abnormal returns are therefore likely to be lower in contexts where ASD laws are strong. Contrastingly, bidders are likely to enjoy superior announcement returns in countries with weaker ASD laws, as a compensation for the higher agency and information asymmetry costs they face (Hagendorff, Collins and Keasey, 2008).

Moreover, since there are more opportunities for self-dealing in weaker ASD jurisdictions, shareholders of acquiring firms tend to value M&A deals in these contexts more highly (John et al., 2010). Conversely, stricter disclosure rules limit the potential gains that acquirers might extract from M&As, which puts downward pressure on acquirer returns (Moeller and Schlingemann, 2005; Rossi and Volpin, 2004). We hence expect that a stronger ASD regime in a given country negatively impacts M&A performance. Thus, we predict:

Hypothesis 2b: The stronger the anti-self-dealing laws in a country, the weaker the M&A – abnormal returns relationship.

4.3 METHODOLOGY

We relied on meta-analysis and various regression techniques to test our hypotheses. After consulting an influential prior meta-analysis on the topic (King et al., 2004), we set out to collect effect sizes capturing our focal relationships from primary studies. We then employed Hunter and Schmidt-type meta-analysis (HSMA; Hunter and Schmidt, 2015) to aggregate these effect sizes. We used two distinct methods to test our hypotheses. For Hypotheses 1a and 2a, we employ OLS regression to test the relationship between the institutions that constrain viceroy- and emperor-like behavior and M&A prevalence. We conducted these regressions with standard errors clustered by year to account for any potential uncontrolled heterogeneity in our data (Petersen, 2009). For Hypotheses 1b and 2b we test the moderating effects of viceroy and emperor behavior-constraining institutions on the M&A–abnormal returns relationship with meta-analytic regression analysis (MARA; Gonzalez-Mulé and Aguinis, 2017; Lipsey and Wilson, 2001). MARA allows us to model the extant variation in institutional quality across all the national settings in our sample, assessing its conditioning effects on the associational strength of our focal relationship.

Main variables

To test our hypotheses, we needed a set of empirical indicators that capture the institutional measures nation states have taken to mitigate various sources of shareholder expropriation. These measures are commonly encapsulated with the anti-director-rights (ADR) and anti-self-dealing (ASD) indices. The ADR index (La Porta et al., 1998) has seen extensive use in the literature (e.g. Bris, Brisley and Cabolis, 2008; Guney, Ozkan and Ozkan, 2007; Leuz et al., 2003). However, the original index drew some criticisms about its validity, based on its ad hoc nature, its components, and the weight attached to them (e.g., Graff, 2008; Pagano and Volpin, 2005; Spamann, 2009). In response to these criticisms, Djankov and associates (2008) created a revised ADR index, which is the version we use to capture measures against shareholder expropriation by managers.[32] The revised index has been used widely in prior literature (e.g., Chaney, Faccio and Parsley, 2011; Chen et al., 2009), and remains the most authoritative and most widely used operationalization of the ADR construct to date.

We adopted our measure for the ASD, the construct that captures legal measures against minority shareholder expropriation by controlling shareholders, from Djankov and associates (2008) as well.[43] These authors have suggested an anti-self-dealing measure consisting of various private enforcement mechanisms governing self-dealing transactions that regulate transaction disclosure, approval and litigation. The ASD index is widely used in the private benefits of control literature (e.g., Andrade and Chhaochharia, 2010; Haidar, 2009). Scores on the revised ADR and ASD indices for all the countries in our sample can be found in Table I.

To collect dependent variable data for our test of Hypotheses 1a and 2a, we relied on ThomsonOne, an online database that tracks mergers and acquisitions globally. We collected data regarding the number of M&As that occurred in each year for all 73 countries in our dataset. We log-transformed this variable to correct for the effects of potential outliers.

To test Hypotheses 1b and 2b, we examined the strength of the M&A–abnormal returns relationship[5]. The latter construct is widely employed in the M&A literature (e.g. Chatterjee, Lubatkin, Schweiger and Weber, 1992; Godfrey, Merrill and Hansen, 2009; Martin and Sayrak, 2003), and captures the difference between actual and expected returns

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[3] The revised ADR index as constructed by Djankov et al., consists of the following items: “vote by mail; obstacles to the actual exercise of the right to vote; minority representation on the Board of Directors through cumulative voting or proportional representation; an oppressed minority mechanism to seek redress in case of expropriation; pre-emptive rights to subscribe to new securities issued by the company; right to call a special shareholder meeting” (2008:453-454).

[4] The ASD index as constructed by Djankov et al., consists of the following items: “approval by disinterested shareholders; disclosures by buyer; disclosures by the director; independent review; disclosure in periodic filings; standing to sue; recission; ease of holding the director liable; ease of holding the approving body liable; access to evidence” (2008:434).

[5] Since the majority of the samples we include in our study do not make any distinction between mergers and acquisitions, we combine the two in a single meta-analysis. This is in line with prior review works on the M&A literature, both empirically (e.g. Datta et al, 1992; King et al., 2004; Stahl and Voight, 2008) and conceptually (Ferreirra et al., 2014; Haleblian et al., 2009).

that accrue to shareholders as a result of the M&A event (Cording et al., 2010; Papadakis and Thanos, 2010). Our sample allows us to examine the M&A–abnormal returns relationship over various event windows.

We controlled for several additional country-level factors to rule out confounding institutional effects. First, we included a GDP measure to correct for the relative size of the economy, since countries with larger economies are likely to harbor more M&As. Second, since firms from wealthier countries are more likely to engage in M&As, we controlled for GDP per capita (Rossi and Volpin, 2004). Since M&A activity is partially contingent on the availability of publicly listed targets, we also controlled for the size of the stock market, measured as the total value of listed companies (Erel, Liao and Weisbach, 2012). We collected all three measures from the World Bank Data center in logged current US dollars, to account for skewedness and inflation. Finally, we also controlled for the Rule of Law to capture baseline levels of institutional development (La Porta et al., 1998). This measure is empirically distinct from our measures of ADR and ASD (r = 0.28 and 0.21 respectively). Rule of Law data was taken from the World Governance Indicators. Table 4.1 presents country-level descriptives.

Prevalence analysis

To test Hypotheses 1a and 2a, suggesting that M&A prevalence is negatively influenced by ADR institutions, but positively influenced by ASD institutions, we performed a series of linear regressions. We conducted our regression analyses, clustered by year, using the cluster command in STATA, version 13.0, with the prevalence of M&As in a given year per country as our dependent variable. In these regressions, we control for log GDP, log GDP per capita, and logged stock market size, as well as for Rule of Law.

Meta-Analysis: sample and coding

To test Hypotheses 1b and 2b, we followed established guidelines for meta-analytical research in management (Lipsey and Wilson, 2001; Cortina, 2003; Hunter and Schmidt, 2015). We collected primary studies investigating the relationship between M&A occurrence and abnormal returns through four distinct search strategies. First, we consulted prior literature reviews (Ferreira et al., 2014; Haleblian et al., 2009) and meta-analyses focusing on this topic (Datta et al., 1992; King et al., 2004; Stahl and Voight, 2008). Second, we searched multiple electronic databases (Google Scholar, JSTOR, EconLit and SSRN), using the following search terms: *merger, mergers, acquisition, acquisitions, takeover, takeovers, M&A, M&As*. Third, we manually searched leading journals in the fields of management, finance and economics. Fourth, we conducted supplementary searches in Google Scholar, using the aforementioned search terms in conjunction with the names of the 100 largest countries (e.g. “acquisitions France” and “takeover Canada”), in order to capture the maximum amount of cross-national heterogeneity in our sample.

Our initial search yielded 2341 studies. We then employed several inclusion criteria to decide whether to retain studies. Studies had to contain empirical data of samples that related to M&A processes and outcomes. We also only included studies that contained one or more samples consisting of only a single country, thereby excluding studies relying on mixed-country samples and studies in which there was ambiguity about the countries contained in the dataset. Additionally, we excluded studies with a median sample year prior to 1970, as data on several important variables were not available for this early time period. After applying these criteria, many studies consisted predominantly of US samples. Since our hypotheses only involve cross-national institutional heterogeneity, we limited the inclusion of US samples to 125% of that of the second-most represented country (United Kingdom), by randomly selecting 16 studies with US samples. We then created a coding protocol that we used to extract all effect sizes between the variables of interest (Lipsey and Wilson, 2001). During the coding process, we had to drop several studies from our sample because they failed to report statistics like standard errors or *z*-scores or because they did not report empirical results for our focal relationship. We then checked all studies for duplicate samples, removing smaller and older samples in case of substantial overlap (Wood, 2008).

When we encountered studies including multiple measurements of our main effect, frequently due to reporting different event windows or multiple distinct home countries, we included all effects in our analyses. Bijmolt and Pieters (2001) have used Monte Carlo simulations to show that analyses including all available measures outperform those employing only single values per study, in terms of both accuracy of parameter retrieval and significance testing. This led to a sample of 93 unique studies with 385 effect sizes. However, several of these effect sizes consisted of target or combined (acquirer and target) abnormal returns. We include all effect sizes in Table 4.2 to provide a broader picture of the M&A context in specific countries. In subsequent models, since our hypotheses are concerned with the abnormal returns of acquiring firms, we excluded target or combined abnormal returns. Our final sample therefore consists of 91 unique studies comprising a total of 288 effect sizes.

TABLE 4.1 Descriptives per country

Country	GDP[a]	GDP per capita[a]	Stock market size[a]	Rule of Law	**ASD**	**ADR**
Argentina	11.07	3.57	9.99	-0.63	0.34	2.0
Australia	11.35	4.13	11.29	1.74	0.76	4.0
Austria	11.04	4.15	10.10	1.96	0.21	2.5
Belgium	11.16	4.16	10.74	1.31	0.54	3.0
Bolivia	9.68	2.86	8.83	-0.84	0.14	2.0
Brazil	11.70	3.49	11.54	-0.44	0.27	5.0
Bulgaria	10.24	3.32	8.51	-0.11	0.65	3.0
Canada	11.62	4.19	11.66	1.79	0.64	4.0
Chile	10.53	3.42	10.85	1.23	0.63	4.0
China	11.62	2.59	11.94	-0.45	0.76	1.0
Colombia	10.63	3.12	10.82	-0.47	0.57	3.0
Croatia	10.49	3.83	9.69	0.08	0.25	2.5
Czech Republic	10.84	3.83	10.12	0.86	0.33	4.0
Denmark	10.98	4.26	10.40	2.00	0.46	4.0
Ecuador	10.20	3.21	9.14	-1.07	0.08	2.0
Egypt	10.55	2.82	11.06	-0.19	0.20	3.0
El Salvador	9.72	3.02	9.28	-0.69	0.43	2.0
Finland	10.86	4.17	10.60	1.90	0.46	3.5
France	11.92	4.16	11.40	1.43	0.38	3.5
Germany	12.07	4.17	11.51	1.75	0.28	3.5
Ghana	9.71	2.57	8.88	-0.01	0.67	5.0
Greece	10.87	3.87	11.11	0.84	0.22	2.0
Hong Kong	10.71	3.96	11.10	1.51	0.96	5.0
Hungary	10.78	3.77	10.43	0.92	0.18	2.0
Iceland	9.65	4.25	N/a	1.85	0.26	4.5
India	11.42	2.50	11.79	0.11	0.58	5.0
Indonesia	10.94	2.71	10.74	-0.68	0.65	4.0

TABLE 4.1 Descriptives per country (continued)

Country	GDP[a]	GDP per capita[a]	Stock market size[a]	Rule of Law	**ASD**	**ADR**
Ireland	10.56	4.01	10.94	1.71	0.79	5.0
Israel	10.61	3.94	10.38	0.81	0.73	4.0
Italy	11.81	4.06	11.86	0.44	0.42	2.0
Jamaica	9.63	3.27	9.40	-0.44	0.35	4.0
Japan	12.27	4.19	12.12	1.33	0.50	4.5
Jordan	9.65	3.14	10.61	0.45	0.16	1.0
Kazakhstan	10.46	3.27	9.80	-0.89	0.48	4.0
Kenya	9.87	2.54	9.44	-0.98	0.21	2.0
Korea, Rep.	11.20	3.58	10.85	1.02	0.47	4.5
Latvia	10.01	3.64	N/a	0.71	0.32	4.0
Lithuania	10.18	3.64	N/a	0.67	0.36	4.0
Luxembourg	9.98	4.39	9.97	1.75	0.28	2.0
Malaysia	10.57	3.33	10.87	0.50	0.95	5.0
Mexico	11.38	3.47	10.39	-0.54	0.17	3.0
Morocco	10.35	2.97	N/a	-0.27	0.56	2.0
Netherlands	11.37	4.20	11.14	1.77	0.20	2.5
New Zealand	10.56	4.02	10.36	1.83	0.95	4.0
Nigeria	10.54	2.58	9.98	-1.06	0.43	4.0
Norway	10.94	4.31	10.54	1.92	0.42	2.0
Pakistan	10.55	2.55	10.17	-0.88	0.41	5.0
Panama	9.80	3.42	9.40	-0.21	0.16	3.0
Peru	10.43	3.12	10.23	-0.78	0.45	2.0
Philippines	10.59	2.83	10.57	-0.48	0.22	4.0
Poland	11.22	3.64	10.52	0.37	0.26	2.0
Portugal	10.73	3.74	10.81	0.98	0.44	2.5
Romania	10.66	3.31	9.47	-0.10	0.44	5.0
Russia	11.65	3.49	N/a	-0.95	0.44	4.0
Singapore	10.43	3.95	10.80	1.65	1.00	5.0

TABLE 4.1 Descriptives per country (continued)

Country	GDP[a]	GDP per capita[a]	Stock market size[a]	Rule of Law	**ASD**	**ADR**
Slovak Republic	10.48	3.76	9.17	0.45	0.29	3.0
South Africa	10.95	3.42	11.12	0.06	0.81	5.0
Spain	11.50	3.91	11.34	1.13	0.37	5.0
Sri Lanka	9.89	2.68	9.46	0.15	0.29	4.0
Sweden	11.22	4.28	10.76	1.88	0.33	3.5
Switzerland	11.37	4.53	11.26	1.84	0.27	3.0
Taiwan	N/a	N/a	N/a	0.75	0.56	3.0
Thailand	10.75	3.03	10.81	-0.09	0.81	4.0
Tunisia	10.02	3.14	9.47	0.17	0.15	3.0
Turkey	11.03	3.32	10.79	0.02	0.43	3.0
Uganda	9.57	2.35	7.83	-0.38	0.41	3.0
Ukraine	10.74	3.05	N/a	-0.75	0.08	3.0
United Kingdom	11.87	4.11	11.82	1.68	0.95	5.0
United States	12.68	4.28	12.62	1.58	0.65	3.0
Uruguay	9.96	3.48	8.78	0.55	0.18	1.0
Venezuela	10.77	3.50	9.84	-1.55	0.09	1.0
Vietnam	10.39	2.53	N/a	-0.41	N/a	N/a
Zimbabwe	9.76	2.79	9.28	-1.78	0.39	4.0

Table 4.1 presents the ASD and ADR plus additional descriptives for 73 countries. All descriptives are composed by taking the average of available data for the period 1970-2007. Subsequent analyses in this paper use year-specific data.

[a]logged values in current USD

Meta-analytic procedures

We build on the work of King and his colleagues (2004) on the general profitability of M&As, and provide an updated overview of empirical M&A results that incorporates more recent, and especially more globally dispersed work. We used HSMA (Hunter and Schmidt, 2015) to generate descriptive results. HSMA allows us to establish overall and country-level estimates for the M&A-performance relationship and their corresponding confidence intervals. We calculated effect sizes by taking the mean of the weighted sample size correlations for each study. Since this generates positive and negative sampling errors that cancel each other out, this approach offers a more precise estimation of mean associations (Hunter and Schmidt, 2015). We then constructed 95% confidence intervals around our estimates (Whitener, 1990). We report the *Q* test for all subsamples, to detect possible heterogeneity in these effect size distributions (Cochran, 1954). Since these tests only indicate the presence or absence of heterogeneity, and as the power of the test is understated for small samples and overstated for large samples (Huedo-Medina, Sánchez-Meca, Marín-Martínez and Botella, 2006), we also calculated the I^2 for all our estimates. The I^2 consists of a transformation of *H*, the square root of χ^2 divided by its degrees of freedom (Higgins and Thompson, 2002). This operationalization has the benefit of describing "the percentage of total variation across studies that is due to heterogeneity rather than chance" (Higgins, Thompson, Deeks and Altman, 2003: 558).

We used random-effects HSMA, as this accounts for potential heterogeneity in the distribution of effect sizes, which is present in the majority of our samples (Raudenbush and Bryk, 2002). Table 4.2 presents descriptive results, including acquirer abnormal returns, target abnormal returns, and combined abnormal returns. For example, our study includes 30 samples involving Chinese firms, representing a combined total of 12276 firms. We find that for Chinese M&As, the mean effect is 0.11 with a standard error of 0.018, significant at the 0.001 level. The *Q* test indicates significant heterogeneity, while the I^2 index shows that 67% of the total variability amongst Chinese effect sizes drives from true heterogeneity (not sampling error) between studies.

We employed MARA to test Hypotheses 1b and 2b. MARA is a technique that uses effect sizes as the dependent variable, and models the independent variables in the regression as moderating effects of the main relationship (Lipsey and Wilson, 2001). Specifically, we regressed the associational strength of the M&A—acquirer abnormal returns relationship on ASD and ADR. MARA is a weighted least squares (WLS) regression technique that models extant heterogeneity in the effect size distribution, in our case tracing it to institutional effects (Lipsey and Wilson, 2001). Consistent with our analysis on M&A prevalence, we controlled for log GDP, log GDP per capita, logged size of the stock market, and Rule of Law. We conducted all analyses in Rstudio, version 1.0.44, using the "metaphor" package.

TABLE 4.2 Country specific HSMA results for the acquisition—abnormal returns relationship[a]

Dependent variable	Prevalence[b]	k	N	Mean association		SE	CI 95%	Q test		I^2
Australia	754.39	42	8844	0.234	***	0.0343	0.17/0.30	374.78	***	0.89
Canada	1197.64	20	9915	0.083	***	0.020	0.04/0.12	56.93	***	0.63
China	367.68	30	12276	0.110	***	0.018	0.08/0.14	91.03	***	0.67
Denmark	159.79	5	690	0.183	*	0.079	0.03/0.34	21.04	***	0.76
Greece	66.50	5	378	0.077		0.081	-0.08/0.24	11.49	*	0.56
India	242.82	72	7526	0.185	***	0.027	0.13/0.24	295.50	***	0.75
Italy	39.07	13	794	0.733	***	0.200	0.34/1.13	260.28	***	0.95
Japan	898.18	34	5280	0.053	**	0.021	0.01/0.09	65.22	***	0.47
Korea, Rep.	136.07	5	743	0.185	**	0.057	0.07/0.30	11.26	*	0.54
Malaysia	420.25	18	3516	0.206	***	0.034	0.14/0.27	64.67	***	0.72
Netherlands	418.96	12	444	0.074		0.050	-0.02/0.17	7.95		0.00
New Zealand	118.75	3	594	0.210	***	0.034	0.14/0.28	51.30	***	0.55
Pakistan	5.64	4	180	0.056		0.077	-0.10/0.21	3.90		0.00
Romania	11.79	8	524	0.439	***	0.045	0.35/0.53	7.34		0.00
Singapore	238.71	6	186	0.063		0.077	-0.09/0.21	4.92		0.00
Spain	337.79	1	177	0.056		-	-	-		-
Switzerland	184.97	15	1140	0.198	***	0.034	0.13/0.26	17.78		0.15
Turkey	27.89	7	634	0.097	*	0.042	0.01/0.18	7.51		0.07

TABLE 4.2 Country specific HSMA results for the acquisition—abnormal returns relationship[a] (continued)

Dependent variable	**Prevalence**[b]	k	N	Mean association		SE	CI 95%	Q test		I^2
United Kingdom	2126.21	35	41064	0.184	***	0.045	0.10/0.27	2743.82	***	0.99
United States	7986.79	46	41315	0.125	***	0.026	0.07/0.18	1065.41	***	0.95
Vietnam	6.93	4	752	-0.022		0.037	-0.09/0.05	0.81		0.00

*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$

k = number of effect sizes; N = firm observations; SE = the standard error of the mean correlation; CI 95% = 95 percent confidence interval around the meta-analytic mean; Q test = Hedges and Olkin (1985) chi-square test for homogeneity; I^2 = scale-free index of heterogeneity.

[a] Note: the data in this table is based on all combined measures in our sample that capture aspects of the acquisition-abnormal returns relationship

[b] Prevalence data is based on the average number of acquisitions for a given year in the period 1980-2007

We also controlled for publication artifacts, including publication status (published article or working paper), publication year, and journal status (based on the UT Dallas top journals list). We found that publication status has a positive significant result, indicating the presence of a file drawer problem in M&A studies (Rosenthal, 1979). We similarly identified a positive significant effect for publication year, but found no effect for journal status. We conducted several additional analyses to triangulate the potential existence of publication bias (Harrison, Banks, Pollack, O'Boyle and Short, 2017). First, we examined the potential presence of publication bias by inspecting *r*-based funnel plots of effect and sample sizes. These plots exhibited an asymmetrical pattern, which indicates the potential presence of publication bias (Duval, 2005). Funnel plots from a cumulative meta-analysis also revealed a positive skew in the data, again indicating a possible publication bias (Borenstein, Hedges, Higgins and Rothstein, 2009). In addition, we also conducted a moderate selection analysis, and found a strong significant indication that studies with large p values are underrepresented (Hedges and Vevea, 2005). However, an analysis with the trim-and-fill methodology (Duval, 2005) indicated that no studies were missing from our estimation. In addition, we computed the Fail-Safe N (Rosenthal, 1979), and found that 68,228 studies with an average z-value of zero need to be added to make the combined effect statistically insignificant. Additional follow-up analyses on the potential for publication bias revealed that publication bias is largely absent in commonly employed research settings, such as China, the United Kingdom and the United States. Overall, our findings indicate mixed results regarding the presence of a potential publication bias, but lean towards the presence of publication bias, particularly in infrequently used research settings.

4.4 RESULTS

Table 4.3 presents the results for our linear regression analysis on the prevalence of M&As, captured in hypotheses 1a and 2a. Hypothesis 1a predicted that the ADR index would have a negative effect on M&A prevalence, whereas Hypothesis 2a predicted that the ASD index would have a positive effect. Model 1 reports control variables, Models 2 and 3 respectively include the direct effects of the ADR and ASD indices, and Model 4 contains both indices. Model 2 shows that the ADR index has a negative and significant effect on M&A prevalence, while Model 3 indicates a positive significant effect for the ASD index. The full model is consistent with these findings. Hypotheses 1a and 2a are therefore supported.

Table 4.4 contains the HSMA results for the M&A–abnormal returns relationship. The main relationship is positive and significant. Following King et al. (2004), we subdivided our dependent variable based on different event windows. We find that the positive significant effect is present in all cases except for the 180+ days event window, where the effect becomes insignificant. A likely explanation for this finding is that market forecasts captured by abnormal returns become less reliable as a predictor over time, due to the effect of confounding events (Schoenberg, 2006). Moreover, stock-based performance indicators operate under the assumption that the expected stock price is stable, an assumption that is more likely to be violated as the event window is lengthened (Andrade, Mitchell and Stafford, 2001). Similar to King and colleagues (2004), we also find that target abnormal returns for day 0 are positive and significant, and that they are more positive than those for the acquiring organization. These results confirm prior findings that target shareholders, due to price premiums, generally enjoy returns that are superior to those of acquirer shareholders (Huang and Walking, 1987).

Table 4.5 presents the MARA results for Hypotheses 1b and 2b. The results show some sample attrition due to variables with missing observations. We therefore decided to collapse all acquirer abnormal returns into a single variable to ensure an adequate sample size. Model 1 contains control variables, Models 2 and 3 include the ADR and ASD indices respectively, and Model 4 combines both indices. We computed the intra-class correlation coefficient, which showed that 27% of the overall variance in our sample results from between-country differences. With regard to our hypotheses, the results indicate strong support for both, as the regression parameters for both indices are negative and significant in all instances.

We also conducted a marginal difference analysis to determine whether strong ASD institutions are more destructive for shareholder wealth than strong ADR institutions, as prior literature has suggested (McConnell and Servaes, 1990; Morck et al., 1988; Young et al., 2008). Our findings (not reported due to space constraints) indicate that this is indeed the case, as a one standard deviation increase from the mean resulted in a stronger loss of shareholder wealth in the case of ASD institutions (-0.054, p = 0.001) than in the case of ADR institutions (-0.042, p = 0.05).

Post-hoc supplementary analyses

We conducted several post-hoc analyses to explore unhypothesized but potentially important moderating effects. First, we expected stronger results for our M&A-abnormal returns hypotheses (1b and 2b) for publicly listed firms, as the higher levels of shareholder dispersion in such firms make expropriation a more salient issue. As our sample did not include sufficient studies that only contained private targets, our analysis is restricted to a comparison between the subsample that includes only publicly listed firms and the full sample that includes both private and public target firms. Second, we expected the effects of constraining institutions to be contingent on the target being domestic or cross-border. As far as data availability allowed us to explore these issues, we conducted several additional HSMAs that explore these effects. We focused on distinct subsets based on whether targets were publicly listed, domestic and/or cross-border. The results of these analyses are presented in Table 4.6. They show that the focal relationship is fairly consistent and remains positive and significant across all subgroups.

We also observed that the abnormal returns of cross-border M&As are higher than those of domestic M&As in the day 0 event window, but lower in the subsequent

TABLE 4.3 Results for prevalence of M&As[a]

	Model 1 Controls only	Model 2 Anti-director rights	Model 3 Anti-self dealing index	Model 4 Both variables
Constant	**-12740.6 (428.04)*****	**-11824.1 (399.17)*****	**-13283.3 (417.22)*****	**-12348.5 (405.50)*****
GDP[a]	**1350.01 (141.85)*****	**1283.36 (58.57)*****	**1455.87 (62.04)*****	**1472.45 (62.86)*****
GDP per capita[a]	**-813.77 (54.41)*****	**-1062.20 (71.61)*****	**-702.71 (65.25)*****	**-991.90 (82.52)*****
Stock market size[a]	**98.01 (39.31)****	**236.20 (45.34)*****	-28.67 (42.66)	52.93 (39.65)
Rule of Law	**460.98 (41.46)*****	**573.57 (42.67)*****	**397.96 (46.48)*****	**516.53 (46.29)*****
Anti-director rights		**-217.27 (23.90)*****		**-402.24 (34.27)*****
Anti-self dealing index			**690.38 (49.68)*****	**1649.55 (97.46)*****
R^2	0.351	0.367	0.359	0.399
F-value	259.7***	331.27***	331.27***	281.64***
N[b]	1047	1047	1047	1047

*** $p < 0.01$; ** $p < 0.05$;. * $p < 0.10$ Standard errors in parentheses.

[a] Logged variables in current USD;

[b] Number of country/year observations.

TABLE 4.4 HSMA results for the acquisition—abnormal returns relationship

Dependent variable	**Event Window**	*k*	*N*	Mean association	SE	CI 95%	*Q* test	I^2
Acquirer abnormal returns	All events	288	122,811	**0.121*****	0.010	0.10/0.14	2,392.69***	0.88
Acquirer abnormal returns	Day 0	36	12,207	**0.152*****	0.022	0.11/0.19	141.53***	0.72
Acquirer abnormal returns	Day 1-5	134	59,599	**0.109*****	0.008	0.09/0.13	335.87***	0.59
Acquirer abnormal returns	Day 6-21	38	10,228	**0.119*****	0.021	0.08/0.16	107.85***	0.61
Acquirer abnormal returns	Day 22-180	53	12,401	**0.237*****	0.045	0.15/0.33	1196.23***	0.95
Acquirer abnormal returns	>180 days	27	28,376	-0.002	0.020	-0.04/0.04	248.52***	0.88
Target abnormal returns	Day 0	14	1,081	**0.315*****	0.050	0.22/0.41	33.48**	0.58

*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$

k = number of samples; N = firm observations; SE = the standard error of the mean correlation; CI 95% = 95 percent confidence interval around the meta-analytic mean; Q test = Hedges and Olkin (1985) chi-square test for homogeneity; I^2 = scale-free index of heterogeneity.

* All models also contain year dummies of which the results have been omitted

TABLE 4.5 Results of mixed-effects meta-analytic regression on acquirer abnormal returns.

Variable[a]	Model 1		Model 2		Model 3		Model 4	
Constant	-0.20 (0.33)		0.30 (0.44)		-0.04 (0.33)		0.57 (0.44)	
Country specific characteristics								
GDP[b]	0.18 (0.11)		0.09 (0.12)		0.04 (0.11)		-0.07 (0.13)	
GDP per capita[b]	0.06 (0.06)		-0.04 (0.08)		0.08 (0.06)		-0.03 (0.08)	
Stock market size[b]	-0.18 (0.10)		-0.10 (0.11)		-0.05 (0.11)		0.04 (0.12)	
Rule of law	0.03 (0.06)		0.09 (0.07)		-0.03 (0.06)		0.04 (0.07)	
Methodological artifacts								
Published study	**0.07 (0.03)**	*	0.06 (0.03)		0.04 (0.03)		0.02 (0.03)	
Institutional variables								
Anti-director rights			-0.03 (0.02)				**-0.03 (0.02)**	*
Anti-self dealing index					**-0.24 (0.07)**	**	**-0.26 (0.07)**	***
R^2	0.24		0.25		0.26		0.27	
k	147		147		147		147	
$Q_{moderators}$	82.30	***	85.51	***	93.17	***	97.79	***
$Q_{residuals}$	782.96	***	772.08	***	767.64	***	757.00	***

*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$;
[a] Year dummies are included but omitted;
[b] logged variable

TABLE 4.6 HOMA results for subsamples of the acquisition—abnormal returns relationship

Dependent variable	Subsample	Event Window	k	N	Mean association	SE	CI 95%	Q test	I^2
Acquirer abnormal returns	Public target	Day 0	8	4,279	**0.197****	0.060	0.08/0.32	71.09 (0.00)***	0.66
Acquirer abnormal returns	Public target	Day 1+	73	24,311	**0.206*****	0.030	0.15/0.26	1055.72 (0.00)***	0.93
Acquirer abnormal returns	Domestic target	Day 0	14	7,727	**0.132*****	0.035	0.06/0.20	77.17 (0.00)***	0.77
Acquirer abnormal returns	Domestic target	Day 1+	109	53,416	**0.131*****	0.019	0.09/0.17	1445.66 (0.00)***	0.92
Acquirer abnormal returns	Foreign target	Day 0	5	1,367	**0.163****	0.059	0.05/0.28	21.75 (0.00)***	0.75
Acquirer abnormal returns	Foreign target	Day 1+	27	7,551	**0.081*****	0.018	0.05/0.12	52.27 (0.00)**	0.48

*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$

k = number of samples; N = firm observations; SE = the standard error of the mean correlation; CI 95% = 95 percent confidence interval around the meta-analytic mean; Q test = Hedges and Olkin (1985) chi-square test for homogeneity; I^2 = scale-free index of heterogeneity.

* All models also contain year dummies of which the results have been omitted

event window. However, since our analysis does not allow us to control for the success rate of M&As, and given the file drawer problem we identified, this finding could be the result of a statistical artifact. Investors likely anticipate that cross-border acquisitions are more difficult to complete, resulting in lower price premiums and potentially higher abnormal returns for the M&As that do manage to be successful, due to a discount for the increased risk. The lower long-term abnormal returns are subsequently more in line with prior findings that suggest that cross-border M&As perform more poorly than domestic M&As in the long run, due to acquirers' inability to value and capture synergies in cross-border M&As correctly (Moeller and Schlingemann, 2004).

In additional MARAs, we introduced the ASD and ADR indices as moderating variables in different subsamples (see Table VII). Results show that the effects for the subsample containing only public targets (Table 4.7a) are stronger than those for our total sample. We interpret this as further support for our hypotheses. Private targets are characterized by higher levels of information asymmetry, due to the stricter rules governing public disclosure of information for listed firms. In line with our argument for Hypothesis 2b, information asymmetry increases the potential for value-creation in M&A deals involving private targets, as there is more private information to exploit (Capron and Shen, 2007).

Table 4.7b and 4.7c provide the results for our domestic and foreign target subsamples respectively. When we compare both full models, the tables show that ADR has a stronger negative moderating effect for foreign targets than for domestic targets. Apparently, when managers engage in empire building, they are more likely to target foreign acquisitions (Aybar and Ficici, 2009). Foreign acquisitions are therefore more likely to be scrutinized than domestic acquisitions, further limiting managers' ability to engage in value-creating transactions.

Additionally, ASD has a stronger positive moderating effect for foreign targets than for domestic targets. In cross-border mergers, the target usually adopts the governance standards and practices of the acquiring firm (Bris and Cabolis, 2008). Moreover, when a foreign firm is 100% acquired, it by law adopts the nationality of the acquiring firm, and therefore becomes subjected to the shareholder protection rights of the acquiring country (Bris, Brisley and Cabolis, 2008). If a cross-border M&A therefore occurs between an acquiring country with low shareholder protection rights and a target country with higher shareholder protection, the acquirer will likely have to pay a higher premium to compensate the target shareholders for surrendering their protection rights (Bris and Cabolis, 2008). Conversely, higher protection rights are likely to be a source of value for target shareholders, thereby lowering the required premium when the acquisition is in the direction of high to low shareholder protection rights. These findings thus provide further support for our hypotheses.

TABLE 4.7a Results of ASD and ADR moderation on different subsets for all acquirer abnormal returns.

Variable	Model 1 Public target Day 0	Model 2 Public target Day 1+	Model 3 Public target Day 0	Model 4 Public target Day 1+	Model 5 Public target Day 0	Model 6 Public target Day 1+
Constant	**1.00 (0.22) *****	**0.71 (0.12) *****	**1.33 (0.22) *****	**0.67 (0.11) *****	**1.30 (0.22) *****	**0.81 (0.13) *****
Anti-self dealing	**-0.99 (0.26) *****	**-0.66 (0.15) *****			0.29 (0.41)	**-0.45 (0.18) ***
Anti-director rights			**-0.25 (0.05) *****	**-0.12 (0.03) *****	**-0.30 (0.08) *****	-0.07 (0.04)
R^2	0.34	0.05	0.61	0.08	0.63	0.08
K	8	73	8	73	8	73
N	4,279	24,311	4,279	24,311	4,279	24,311
$Q_{moderators}$	14.43 (0.00)	19.81 (0.00)	29.06 (0.00)	17.48 (0.00)	29.76 (0.00)	23.49 (0.00)
$Q_{residuals}$	49.46 (0.00)	1001.26 (0.00)	32.38 (0.00)	976.35 (0.00)	31.56 (0.00)	974.29 (0.00)

TABLE 4.7b Results of ASD and ADR moderation on different subsets for all acquirer abnormal returns.

Variable	Model 1 Domestic target Day 0	Model 2 Domestic target Day 1+	Model 3 Domestic target Day 0	Model 4 Domestic target Day 1+	Model 5 Domestic target Day 0	Model 6 Domestic target Day 1+
Constant	**0.43 (0.13) ****	**0.27 (0.07) *****	**0.57 (0.15) *****	**0.33 (0.06) *****	**0.59 (0.16) *****	**0.36 (0.08) *****
Anti-self dealing	**-0.42 (0.18) ***	**-0.19 (0.09) ***			-0.12 (0.24)	-0.07 (0.10)
Anti-director rights			**-0.11 (0.04) ****	**-0.05 (0.02) *****	-0.09 (0.05)	**-0.05 (0.02) ****
R^2	0.06	0.01	0.06	0.01	0.06	0.01
K	14	109	14	109	14	109
N	7,727	53,416	7,727	53,416	7,727	53,416
$Q_{moderators}$	5,45 (0.02)	4,49 (0.03)	9.03 (0.00)	11.03 (0.00)	9.29 (0.01)	11.49 (0.00)
$Q_{residuals}$	73,69 (0.00)	1431.03 (0.00)	73.43 (0.00)	1437.31 (0.00)	73.24 (0.00)	1431.02 (0.00)

TABLE 4.7c Results of ASD and ADR moderation on different subsets for all acquirer abnormal returns.

Variable	Model 1 Foreign target Day 0	Model 2 Foreign target Day 1+	Model 3 Foreign target Day 0	Model 4 Foreign target Day 1+	Model 5 Foreign target Day 0	Model 6 Foreign target Day 1+
Constant	**0.45 (0.21)** *	**0.25 (0.07)** ***	-0.29 (0.21)	0.04 (0.04)	-0.08 (0.19)	**0.21 (0.09)** *
Anti-self dealing	-0.49 (0.34)	**-0.26 (0.11)** *			**-0.51 (0.21)** *	**-0.24 (0.11)** *
Anti-director rights			**0.11 (0.05)** *	0.01 (0.01)	**0.14 (0.04)** ***	0.01 (0.01)
R^2	0.28	0.31	0.70	0.14	1.00	0.37
K	5	27	5	27	5	27
N	1,367	7,551	1,367	7,551	1,367	7,551
$Q_{moderators}$	2.03 (0.15)	6.11 (0.01)	4.51 (0.03)	1.48 (0.22)	17.69 (0.00)	6.78 (0.03)
$Q_{residuals}$	17.06 (0.00)	44.36 (0.00)	10.12 (0.02)	48.75 (0.00)	4.06 (0.13)	42.99 (0.01)

*** $p < 0.001$; ** $p < 0.01$;. * $p < 0.05$

4.5 DISCUSSION

Our study highlights the importance of the institutional context for the investigation of both the prevalence and gains to shareholder value of M&As. In an effort to understand why M&As lead to gains or losses, research predominantly focused on the dyadic relationship between acquired and acquiring organizations, while often overlooking the role of the broader external context in which acquisitions are embedded (Haleblian et al., 2009). The current study indicates that there is value in complementing firm-level research designs with more attention to the institutional context in which M&As are conducted.

Specifically, we show that the institutional measures taken by nation states to combat agency problems have ulterior effects on M&A prevalence and performance. In our study, we accounted for unforeseen side effects that allowed us to explain country-level heterogeneity in M&A prevalence and the M&A–abnormal returns relationship. Including ADR and ASD increased the explained variance beyond the baseline model with 0.05 for M&A prevalence and 0.03 for abnormal returns. This increase translates to nearly 1400 deals or $200 billion in terms of combined transaction value for the year 2015 alone (SDC, 2017). The immediate implication of this finding is that the presence of legal measures curtailing viceroy- and emperor-type behaviors does not have an unequivocally positive impact, and that careful evaluation is required before jurisdictions consider implementing or strengthening such measures. Our research thereby contributes to the emergent M&A literature that considers how institutional characteristics shape the M&A context (e.g., Clougherty, 2005; Capron and Guillen, 2009).

In particular, our first contribution comes from highlighting that while the viceroy problem involving managerial opportunism in M&As is indeed a salient issue, it is not a universal one. Instead, our understanding of this problem demands contextualization, as the prevalence of this issue is highly contingent on the external institutional context. We find that when the institutional context addresses potential principal-agent problems, the prevalence of M&As decreases. This suggests that managerial empire building can be contained by means of dedicated legal measures. However, our findings also indicate that in contexts where anti-director rights are strongly developed, post-M&A abnormal returns tends to be lower. The implementation of legal measures that address agency problems seems to come with a side-effect of overly restrictive checks on managerial discretion. As a consequence, managers are curbed in correctly identifying and pursuing lucrative targets. Contrary to prior beliefs, the implementation of anti-director measures can therefore actually be counterproductive, as they tend to decrease rather than increase the shareholder value in the M&A deals that do go through. In this case, implementing institutions to restrict managerial freedom not only limits the gains made by managers, but also by shareholders.

Second, our study also emphasizes the importance of the emperor problem, a frequently neglected issue that negatively affects post-M&A abnormal returns because it involves expropriation by controlling shareholders. Prior research has shown that controlling shareholders can act as an effective countermeasure to viceroy problems, as these shareholders have strong incentives to engage in controlling and monitoring managerial action (Holderness, 2009). Yet their presence can also lead to a new set of problems, as controlling shareholders may have incentives to take advantage of minority shareholders. We highlighted this issue empirically by our marginal difference analysis, where we showed that anti-self-dealing measures are more destructive for shareholder wealth than anti-director rights. Using M&As as a vehicle, majority owners have a variety of tools at their disposal, such as tunneling, transfer pricing, and takeover premiums, all allowing them to siphon wealth away from minority shareholders, either through the M&A deal itself or in the post-merger phase.

Similar to ADR, there are institutional measures to be taken against these issues, in the form of anti-self-dealing laws. Our results show that stronger ASD laws actually increase the prevalence of M&As. This indicates that the presence of such laws can provide shareholders of targeted firms with assurances that their wealth is relatively safe from post-merger expropriation. Shareholders are therefore generally more amicable to being acquired in contexts with high ASD. This increases the frequency in which M&As are used as a corporate growth mechanism. Interestingly however, the presence of these laws simultaneously also lowers the overall predictions regarding the performance of M&As. This indicates that strong ASD laws lower the information asymmetries that might create opportunities for value creation (Capron and Shen, 2007). Conversely, bidders that face higher levels of information asymmetries are compensated for the potential costs they might face as a result of this uncertainty (Hagendorff et al., 2008). Moreover, the absence of strong ASD laws facilitates the bidder’s opportunities for self-dealing, and makes potential targets in these jurisdictions more attractive (John et al., 2010).

Our third contribution comes from capitalizing on further empirical research on M&As that enabled us to extend earlier meta-analyses of the M&A literature (Datta et al. 1992; King et al. 2004; Stahl and Voigt, 2008). These earlier meta-analyses were revealing in particular because they showed that many frequently hypothesized firm-level factors did not explain much variance in M&A performance. More than a decade after the publication of the seminal study by King and associates (2004), M&A research has blossomed further, and we were able to compile a meta-analysis with samples from a much more diverse set of countries. This geographically more diverse approach showed positive results from M&A activity, when examined on a global scale. Specifically, we found a strongly significant mean effect of 0.12 for the M&A-abnormal returns association, when exploring the largest possible set of effect sizes. More importantly, however, by combining multiple single-country studies in a single multiple-country study, we demonstrate how many of the firm-level factors identified by King and co-authors are critically conditioned by contextual institutional factors. We hope our study and the findings inspire new pathways for future comparative M&A studies.

Limitations and Future Research

The results from our meta-analysis have to be interpreted in light of several limitations. First, one of the main independent variables we employed for our analysis is the ADR index, and this index is not without criticism (e.g., Graff, 2008; Pagano and Volpin, 2005; Spamann, 2009). However, the revised ADR index constructed by Djankov and associates (2008) addressed these criticisms by providing an updated version. Since this revised index has been widely adopted in the corporate governance literature (e.g., Chaney et al., 2011; Chen et al., 2009; John et al., 2010; Marosi and Massoud, 2008), we feel justified in employing it as one of our explanatory variables, especially in the absence of other broadly accepted measurements.

Second, ADR and ASD indices are time-invariant variables, and it is reasonable to assume that they are susceptible to institutional development and, occasionally, decline. Yet, while legal institutions often change more rapidly than cultural institutions like norms and values, they still tend to change much slower than political institutions, as their effectiveness is dependent on their acceptance and legitimacy in society (Roland, 2004). The primary studies included in our work have median sampling years ranging from 1970 to 2007. Since this is a relatively short time frame for institutional change to occur, we expect that the time-invariant nature of our measures will not have a major influence on our results.

Third, due to the meta-analytic nature of our data, we were unable to control for firm-level variables that might capture specific risks associated with an M&A transaction, and therefore influence realized abnormal returns. For example, high levels of ownership concentration can pose a higher risk of expropriation for minority shareholders. However, such heightened risk levels could be recompensed by increasing the premiums offered to minority shareholders. Organizations can also choose to disclose more information or impose higher levels of accountability than legally required in institutionally weak environments. These actions can act as firm-specific signaling mechanisms that allow organizations to reduce information asymmetries and their associated risk for minority shareholders.

Fourth, our measure of M&A performance is restricted to operationalizations of abnormal returns. The focus on expected shareholders gains or losses in this operationalization runs the risk of not fully capturing the actual returns earned by the firms (Cording et al., 2010). While other, predominantly accounting-based operationalizations of M&A performance are also commonly employed, such as ROA, ROE, or sales growth, we found that our sample of studies did not include sufficient observations to employ these alternative operationalizations. However, even though abnormal returns only capture the difference between expected and actual gains to shareholders, the large body of literature that employed this measure as its sole dependent variable indicates that this construct is sufficiently interesting to study in and of itself.

Fifth, our study could only shed limited light on the role ADR and ASD institutions play in cross-border acquisitions due to sample size restrictions. An interesting question is what the effect will be of substantial differences in institutional development between target and acquirer home nations. Following the theorizing laid down in our hypotheses, targets from less developed jurisdictions may perceive the potential M&A transaction as a way to ameliorate viceroy and emperor problems, which should increase M&A likelihood and decrease target premiums. Inversely, targets from more developed nations will likely resist transactions involving bidders from contexts with weaker ADR and ASD provisions, resulting in lower M&A prevalence and higher target premiums. These conjectures might be tested in future research.

Our study also harbors other opportunities for future research. First, the notion that the viceroy problem is at least partially context-dependent has an important bearing on M&A research. For example, prior research has made a strong case that managers vary considerably in their approach to M&A decisions, contingent on hubris (Hayward and Hambrick, 1997) or narcissism and other personality dimensions (e.g., Chatterjee and Hambrick, 2007; Malhotra, Reus, Zhu and Roelofsen, 2017). Our study suggests that the institutional context may not only influence the extent to which CEOs can pursue self-interests, it can also restrain CEOs in terms of flexibility or speed in decision-making. We thus expect that there will be salient interactions between institutional factors and CEO personality characteristics. It will be interesting to bring in more nuances on the ways in which the institutional context influences managers' influence over the M&A process.

Second, and perhaps even more important for future research, is the finding that the emperor problem generally has a stronger effect than the viceroy problem, and it seems to be more critical in certain countries than in others. We still need a lot more research in general about the role of different types of owners in relation to M&A initiation and outcomes. For example, some research has already begun to reveal that leaders of family firms seek to retain control for their offspring by using M&As as a vehicle for diversification (Miller, Le Breton-Miller and Lester, 2010). This ownership influence could depend on the institutional context that is emphasized in this study; we expect the influence of different types of owners to vary depending on the ASD laws that characterize a country.

Third, while our study shows the impact of the institutional environment on M&As, the results from our analyses reveals that significant levels of variance remain unexplained. These findings tie in with the observation by Haleblian et al. (2009) that our current understanding of the broader context in which M&As are conducted is still lacking. Ferreira and colleagues (2014) came to a similar conclusion in their bibliographic review of the M&A literature, and also called for more studies that account for the institutional context. Our study provides some empirical support that these suggestions are justified, and we would like to echo the call for more papers that incorporate institutional characteristics in their analysis, in order to further explain the variance in findings of the M&A literature.

Fourth, due to the increase in breadth of research settings employed for M&A research, our study was able to draw on a larger sample of countries than prior meta-analyses. It is encouraging to observe that over time, the research settings that are employed are becoming increasingly diversified, not just as a verification of the generalizability of earlier findings in other contexts, but also as fertile ground to test new hypotheses. However, our analysis still identified the presence of potential publication bias, particularly for research on countries outside of commonly examined settings such as China, the United Kingdom and the United States. This implies that while progress is being made, further examination of how different empirical contexts shape the M&A process remains warranted.

Conclusion

Scholars are increasingly becoming aware of the crucial role that the institutional context plays in conditioning the outcomes of M&A processes. With this awareness however, comes the growing realization that there is still much to be explored, as many important questions remain unanswered (e.g., Capron and Guillén, 2009; Ferreira et al., 2014; Zhang, Zhou and Ebbers, 2011). In this paper, we addressed one of these questions, namely how institutions that seek to address viceroy and emperor problems spill over to affect M&A outcomes. In our study, we conducted a thorough meta-analysis that contained country samples spanning across the globe, and found some answers that shed light on this issue. While these institutions may curtail the empire-building tendencies of managers and promote M&A activity by building a foundation of transparency and accountability, they have the ulterior effect of hampering shareholder value post-M&A. Our results reveal that these institutions represent a double-edged sword, and prompts an evaluation of which goals are to be prioritized – realizing superior organizational performance or protecting shareholders from expropriation?

SUMMARY

Our comprehension of how organizations operate is not complete without accounting for the role of context. While a lot of research has been conducted on how organizations should respond to their environment, we know comparatively little about how the environment affects the behavior and decision making of organizations. In this dissertation, I therefore investigate the interplay between organizations and their context from the perspective of what context means for organizational strategies. Since both current and past conditions can have an effect on organizations, I chose to include a historical as well as a contemporary approach in my work. In particular, I draw on and contribute to theories of environmental imprinting and institutional theory to investigate how context affects (1) the internationalization behavior of EMEs, (2) the future profitability of organizations founded during times of hardship, and (3) M&A deal propensity and profitability.

The findings from these three empirical studies indicate that context has a significant impact on various organizational outcomes. Context provides a propensity for firms to pursue particular strategic options, through (dis)-incentivizing one choice over another. Differences in founding conditions can stimulate the development of certain capabilities that can later be used as competitive advantages for particular strategies, while contemporary conditions can directly affect strategic choices through incentivizing mechanisms. In particular, the first study showed that differences in internationalization behavior that we perceive across EMEs can in part be explained through heterogeneity in founding conditions. In a similar vein, the second study demonstrated differences in firm performance are partially explained by the hardship organizations experience during their time of founding, and the capabilities they develop because of it. The third study showed how institutions geared towards protecting shareholders reduce not only the number, but also the profitability of mergers and acquisitions.

Jointly, the findings in my dissertation emphasize the importance that a proper attribution and analysis of the role context has for the field of management. Not accounting for context introduces a variety of problems for research, from biased findings to hindering the generalizability of suggestions and predictions. By contribution to a better understanding of our environment and how organizations are affected by it, I provide nuance and richness to our existing theorizing and analysis of organizational outcomes. I hope that future work continues to explore and unearth the depths of this fascinating aspect of our society, and make the world a better understood place because of it.

SAMENVATTING

Ons begrip van hoe organisaties functioneren is niet compleet zonder rekening te houden met de rol van context. Hoewel er veel onderzoek is gedaan naar hoe organisaties het beste kunnen reageren op de omgeving waar binnen ze opereren, weten we relatief weinig over het tegenovergestelde effect: hoe de omgeving het gedrag en de besluitvorming van organisaties beïnvloedt. In dit proefschrift onderzoek ik daarom de interactie tussen organisaties en hun context vanuit het perspectief van wat context betekent voor de strategieën die een organizatie implementeert. Omdat zowel huidige als vroegere condities een effect kunnen hebben op organisaties, heb ik ervoor gekozen om zowel een historische als een hedendaagse benadering in mijn werk op te nemen. In het bijzonder maak ik gebruik van en draag ik bij aan theorieën over inprenten en instituties om te onderzoeken hoe context van invloed is (1) het internationaliseringsgedrag van opkomende marketeconomieën, (2) de winstgevendheid van organisaties die zijn opgericht in tijden van schaarste, en (3) de frequent en winstgevendheid van overnames.

De bevindingen van deze drie empirische studies geven aan dat context een significante invloed heeft op verschillende organisatorische uitkomsten. Context creeërt voor bedrijven de neiging om bepaalde strategische opties na te streven, door de ene keuze boven de andere aan te moedigen. Verschillen in condities ten tijde van oprichting kunnen de ontwikkeling van bepaalde capaciteiten en vaardigheden stimuleren die later voor bepaalde strategieën competitieve voordelen op kunnen leveren, terwijl hedendaagse omstandigheden strategische keuzes rechtstreeks kunnen beïnvloeden door middel van stimulerende mechanismen. In mijn dissertatie toont de eerste studie dat de verschillen in internationalisatiegedrag die we waar kunnen nemen in opkomende markteconomieën gedeeltelijk verklaard kunnen worden door heterogeniteit in condities tijdens oprichting van de organizatie. Op een vergelijkbare manier verklaart de tweede studie verschillen in bedrijfswinstgevendheid door de capaciteiten die organizaties ontwikkelen als gevolg van schaarste tijdens hun oprichting. De derde studie toont aan dat instellingen die zich richten op het beschermen van aandeelhouders niet alleen het aantal, maar ook de winstgevendheid van fusies en overnames kunnen verminderen.

Gezamenlijk benadrukken de bevindingen in mijn proefschrift het belang van een goede attributie en analyse van de rol van context voor de bedrijfskunde. Als de context niet goed begrepen wordt kan dat zorgen voor allerlei problemen binnen het onderzoek, van selectieve uitkomsten tot belemmeren voor de generaliseerbaarheid van de bevindingen. Door bij te dragen aan een beter begrip van onze omgeving en wat dit betekent voor organisaties creeër ik nuance en inzicht voor onze bestaande theorieën en analyses over bedrijfsresultaten. Ik hoop dat toekomstige werk dit fascinerende aspect van onze samenleving zal blijven uitdiepen en de wereld daardoor een beter begrepen plaats zal maken.

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PORTFOLIO

PUBLISHED PAPERS

Maas, A.J.J., Heugens, P.P.M.A.R. and Reus, T. H., Viceroys or Emperors? An Institution-Based Perspective on Merger and Acquisition Prevalence and Shareholder Value. *Journal of Management Studies* doi:10.1111/joms.12335

WORKING PAPERS

Maas, A.J.J., Heugens, P.P.M.A.R. and Reus, T. H., Emerging Market Firm Internationalization: An Environmental Imprinting Perspective - *Writing in progress, targeting Journal of International Business Studies*

Maas, A.J.J., The silver spoon: Why beneficial founding conditions may hurt organizations in the future - *Writing in progress, targeting Organization Science*

Yang, J., Lander, M. W., Maas, A.J.J., Heugens, P.P.M.A.R. Acquisition Experience: A meta-analysis on the pathways from prior M&A experience to performance – *Writing in progress, targeting Strategic Management Journal*

Maas, A.J.J., Product Categories, Hybridization and Institutional Influences in the Board Game Industry – *Data collection in progress*

Heugens, P.P.M.A.R., Van Essen, M., Maas, A.J.J. Family firm investment horizons, an institutional perspective – data collection in progress

TEACHING EXPERIENCE AND AWARDS

Lecturer	The Rules of the Game: Institutional Strategies M.Sc. in Strat. Man., 2017-2018 Evaluation: 4.7/5
Lecturer	The Rules of the Game: Institutional Strategies M.Sc. in Strat. Man., 2016-2017 Evaluation: 4.8/5
Lecturer	Escaping the Iron Cage: Strategic Responses to Institutional Pressures M.Sc. in Strat. Man., 2015-2016 Evaluation: 4.9/5
Co-lecturer	Macro-economie en Institutionele Context

B.Sc. Business administration, 2016-2017

Co-lecturer Macroeconomics and the Institutional Context
B.Sc. International Business administration, 2016-2017

Co-lecturer Macro-economie en Institutionele Context
B.Sc. Business administration, 2015-2016

Co-lecturer Macroeconomics and the Institutional Context
B.Sc. International Business administration, 2015-2016

Supervision Sole supervisor for 10 Bachelor theses (topic: The role of cultural distance in cross-border acquisitions), Academic Supervisor for 5 Business Internships (varying topics), co-reader for 5 master theses (varying topics), 2014-2018

Awards **"Teacher of the Year" Award, M.Sc. in Strategic Management, 2016**

CONFERENCE PRESENTATIONS

- Academy of Management, Vancouver (Canada), 2015
- Strategic Management Society, Denver (CO), 2015
- CIBER Global Strategy and Emerging Markets Conference (Miami (FL), 2016
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- Academy of Management, Anaheim (CA), 2016
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Ron Maas (1987) has obtained bachelor degrees in both Chemistry and Economics and Business Economics from the University of Utrecht in 2012. He then did a masters’ degree in Strategic Management and a research master in Business at the Rotterdam School of Management, Erasmus University Rotterdam, both of which he completed in 2014. In September 2014, he started his PhD at the department of Strategy & Entrepreneurship, at the Rotterdam School of Management, Erasmus University Rotterdam, under the supervision of Professor Pursey Heugens and Professor Taco Reus.

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