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Ownership in cross-border acquisitions and the role of government support

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ABSTRACT

We examine the role of government support on the ownership choices by multilatinas in cross-border acquisitions, both directly and in moderating the relationship between institutional distance and knowledge access. We argue that the pro-market reforms and three mechanisms of government support – financing, stock participation, and political ties – can result in higher levels of ownership negotiated by firms, under conditions of greater institutional distance and knowledge access. Our findings contribute to extend the institution-based view by exploring how the unique institutional characteristics of Latin American countries, and especially different types of government support, influence foreign ownership strategies of multilatinas.

1. Introduction

Over the past two decades emerging multinationals (EMNCs) have invested in foreign countries mostly using cross-border acquisitions (CBAs) as entry mode (Buckley, Elia, & Kafouros, 2014; Deng & Yang, 2015). Latin American firms (LAFs) – or multilatinas – have followed the trend (Casanova & Kassum, 2013; Malhotra, Lin, & Farrell, 2016) and by means of acquisitions have reached leading positions in their industries; such firms include JBS (meat processing), Vale and Coldelco (metals and mining), Ambev (beverage), Cemex (cement), Bimbo (food) and Tenaris (steel) (Cuervo-Cazurra, 2016; Fleury & Fleury, 2011). To understand LAFs' CBAs we need to understand how multilatinas are different from other EMNCs and how the differences in the home country institutional conditions influence LAFs' internationalization decisions. Cuervo-Cazurra (2016, p. 1965) stated that what makes multilatinas different from firms of other regions is that "they come from Latin American countries, which share similarities in their historical background, political and economic development, geographic characteristics and sociocultural attributes". These idiosyncrasies are what make multilatinas and Latin American countries (LACs) a great research laboratory (Cuervo-Cazurra, 2012, 2016) for international business scholars.

The level of ownership acquired in CBAs is a major strategic consideration (Chen, 2008; Gaffney, Karst, & Clampit, 2016) because of its influence on the transfer of assets and risk exposure (Chari & Chang, 2009; Malhotra et al., 2016), learning (Sun et al., 2012), capability procurement (Chen, 2008), and legitimacy in the host country (Meyer et al., 2014). The received wisdom based on transaction costs (Gatignon & Anderson, 1988; Malhotra et al., 2016) and institutional theory (Luo & Tung, 2007; North, 1990; Scott, 1995) points out that firms are more likely to undertake greater investments when entering proximate and favorable institutional environments (Contractor, Lahiri, Elango, & Kundu, 2014; Gaffney et al., 2016; Lee, Hemmert, & Kim, 2014) – i.e., when institutional distance is low. Similarly, lower levels of ownership would be preferred in order to learn (Williamson et al., 2014) or access novel business- and country-level knowledge (Ferreira, 2008). However, in the context of LAFs, government influence is

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likely to alter the manner in which LAFs perceive the costs and risks of ownership, perhaps remarkably because the government also seeks to promote its ideology (Murtha & Lenway, 1994; Musacchio & Lazzarini, 2014) and attempts to gain influence in global political affairs (Casanova & Kassum, 2013). Hence, we argue that it is important to understand how governments intervene in LACs and especially to distinguish the different forms of government support. Contrary to the western more institutionally developed countries whose economic systems are essentially based on privately-owned firms, and unlike China where many of the multinationals are actually state-owned (Meyer et al., 2014), in Latin America, the industrialization and pro-market reforms (Cuervo-Cazurra & Dau, 2009; Cuervo-Cazurra, 2008) led to a system based on private firms, but with significant government intervention. Latin American governments have pushed a policy of internationalization (Aggarwal & Agmon, 1990; Cuervo-Cazurra, 2008), supporting the internationalization of selected firms granted privileged access to governments (Pan et al., 2014). For example, the Brazilian government has promoted the internationalization of some Brazilian multinationals through a "national champions" policy (Casanova & Kassum, 2013; Fleury & Fleury, 2011) – these are state-backed firms, protected from competition, that benefit from subsidies, and are vehicles for national industrial policies – through FDI financing (Casanova & Kassum, 2013), and most remarkably through financing CBAs.

In this study, we examine how institutional conditions, especially government support, influence the ownership acquired in CBAs by LAFs, both directly and by moderating the effects of institutional distance and learning in CBAs. Following recent analyses of government-firms' relationships in Latin America (Musacchio & Lazzarini, 2014), we propose that government support operates through three mechanisms: financing, stock participation and political connections (board participation). These mechanisms are substantially different from the more common government ownership and in an institution-based view they impose different challenges. The internationalization of state-owned firms is reasonably well understood (e.g., Cui & Jiang, 2012; Meyer et al., 2014; Pan et al., 2014) but the internationalization of government-supported firms is not well documented in the international business literature. We argue that Latin American governments facilitate CBAs, and have the propensity to take full ownership, by reducing institutional distance between countries, enhancing the ability to take risks across borders, offsetting ownership disadvantages in foreign countries and providing access to an array of resources that are not available to privately-owned firms or firms lacking government support. Moreover, Latin American governments may drive firms to acquire knowledge capabilities by supporting more innovation-based endeavors to push their political and economic objectives.

We test our arguments with a sample of 262 CBAs undertaken by Brazilian multinationals, which took place between 2006 and 2012, using data collected from the SDC Platinum and a unique dataset (compiled for this study) of how firms have benefited from government support. This study provides evidence that LAFs ownership in CBAs is somewhat determined by their home country's institutional conditions (Conti, Parente, & Vasconcelos, 2016; Cuervo-Cazurra, 2016) and the manner in which government supports firms. Our findings show some evidence that private firms, private firms with the government as a shareholder, and government-supported firms seem to deploy different foreign ownership strategies.

The contributions of this study are twofold. We contribute to the international business literature by providing a theoretical understanding of multilatinas and their interaction with the institutional environment. In studying LAFs, we complement extant research on emerging economies' multinationals that has focused especially on Chinese multinationals (e.g., Child & Rodrigues, 2005; Deng, 2009; Hong, Wang, & Kafouros, 2014; Luo, Xue, & Han, 2010; Peng, 2012). We thus answer the call for additional research on the unique context of Latin America, contributing to the extant institutional and internationalization theory (Cuervo-Cazurra, 2012, 2016). Our findings corroborate the suggestion that multilatinas are more aggressive and risk-taking when pursuing strategic assets via internationalization than their counterparts from developed countries (Gaffney et al., 2016; Luo & Tung, 2007). To at least some extent there is also a contribution to foreign entry strategies especially on the equity mode (Brouthers, 2002; Chen & Hennart, 2004; Hennart & Reddy, 2000; Meyer, Wright, & Pruthi, 2009) as a reflection of both firms' and governments' objectives.

We further add to the literature on the institution-based view by delving into the role of government support on the internationalization of firms. The extant research has more often focused on the institutional heterogeneities across countries and the challenges in an institutionally diverse host (Cuervo-Cazurra & Dau, 2009; Deng, 2009; Gaffney et al., 2016). We extend this by focusing on a specific home institutional agent – the government – we treat government support as an endogenous institutional factor, and conceptualize three mechanisms through which government support influences foreign ownership. We go beyond arguments based on gaining host country legitimacy (Meyer et al., 2014) and include the possibility that governments use firms to execute their ideologies and reinforce economic and political power. Governments in emerging economies have a pervasive influence on firms' strategies (Hoskisson, Wright, Filatotchev, & Peng, 2013; Meyer et al., 2014; Wang, Hong, Kafouros, & Wright, 2012), but much of our understanding of the role of government in emerging economies pertains to China. There is a stark contrast between the role of government in centrally planned economies, delving into state-owned firms (Liu, Wang, & Zhang, 2013; Luo et al., 2010), and the largely market-driven economies of Latin America where firms are mostly privately owned (Casanova & Kassum, 2013; Conti et al., 2016). Multilatinas behave differently from other EMNCs due to their specific institutional environment, manners of government intervention, and their need to speed learning and upgrading to compete nationally, regionally and globally.

2. Theory development and hypotheses

The choice of ownership acquired in CBAs is a core decision because of the economic, financial and strategic impact on acquirer and target firms (Chen, 2008; Ferreira, 2008; Gaffney et al., 2016), such as the level of control, transfer of assets, investment requirement and risk (Chari & Chang, 2009). The degree of ownership acquired confers on the acquirer a continuum of control and integration options of the target firms' resources (Ferreira, 2008). Moreover, the ownership acquired is not only a matter of control (Malhotra et al., 2016) or of the impact on the financial disbursement involved, but it may also influence the learning potential and the loss of value of the target post acquisition (Dyer, Kale, & Singh, 2004; Ferreira, 2008).

The extant literature has already examined the ownership choices in CBAs made by EMNCs focusing on formal institutional, cultural and industry related determinants (Contractor et al., 2014), economic and knowledge distance (Gaffney et al., 2016), home-country institutional factors and cross-national distance (Lahiri, Elango, & Kundu, 2014; Lee et al., 2014), and resource- and context-specificity of EMNCs' acquisitions (Buckley et al., 2014). Full ownership avoids the hazards and extra costs of shared ownership (Chen, 2008) while granting access to complex and organizational embedded knowledge (Vermeulen & Barkema, 2001). A full ownership is preferred to gain control of the target's resources (Meyer et al., 2009), procure capabilities (Chen, 2008), transfer headquarters' knowledge, resources and competitive advantages (Vermeulen & Barkema, 2001), and facilitate better coordination and knowledge combinations (Ferreira, 2008; Vermeulen & Barkema, 2001).

Conversely, EMNCs are likely to prefer partial ownership in acquisitions to minimize asymmetric information hazards (Chen & Hennart, 2004; Hennart & Reddy, 2000), to access complementary resources not held, and to share financial investment and risks (Chari & Chang, 2009; Gomes-Casseres, 1990). Meyer et al. (2014) further suggested that lower ownership enables greater adaptation that eases gaining host legitimacy, especially for state-owned firms that face greater host country institutional pressures.

2.1. Institutional distance

Institutions are country specific (Hoskisson et al., 2013; Kostova & Zaheer, 1999; Kostova, 1999; North, 1990; Scott, 1995) and a key determinant of firms' entry mode and ownership choices to deploy abroad (Contractor et al., 2014; Demirbag, Glaister, & Tatoglu, 2007; Gomes-Casseres, 1990; Lee et al., 2014; Malhotra et al., 2016; Meyer et al., 2014; Peng, Wang, & Jiang, 2008). Influenced by North (1990) and Scott (1995), the institution-based view argues that firm strategies are, at least in part, a reflection of their home and host countries' institutions (Peng et al., 2008) and how these institutions differ (Berry, Guillén, & Zhou, 2010; Meyer et al., 2014). To assess the institutional distances, scholars have created a number of taxonomies such as Berry et al.'s (2010) nine institutional dimensions typology.

Extant studies focusing on the influence of different facets of institutional distance on the ownership level have mostly concluded that greater institutional dissimilarities between home and host countries hinder firms from pursuing foreign markets aggressively (Berry et al., 2010; Gatignon & Anderson, 1988; Malhotra et al., 2016). Dissimilarities are sources of added uncertainty, information asymmetry, organizational and administrative costs, difficulty of transferring knowledge (Malhotra et al., 2016) and evaluating strategic routines (Kostova & Zaheer, 1999), and hazardous relationships with the local institutions (Contractor et al., 2014; Meyer et al., 2014). Hence, institutional theory points to firms seeking more proximate foreign institutional contexts to ease doing business and gain legitimacy (Chan & Makino, 2007; Kostova & Zaheer, 1999; Kostova, 1999). Alternatively, firms may pursue models of cooperation, or shared ownership with local legitimate partners, as a means of lowering the public profile and reducing the likelihood of having their legitimacy challenged by critical stakeholders (Meyer et al., 2014). By choosing lower ownership, multinationals exchange ownership for legitimacy (Chan & Makino, 2007; Meyer et al., 2014).

In sum, following the accumulated knowledge, we argue that in instances of higher institutional distance, firms may prefer to pursue models of low ownership and of cooperation with the host country's legitimate partners to gain local legitimacy (Kostova & Zaheer, 1999). This effect is more pronounced in acquisitions that are more likely to generate some degree of opposition emerging from nationalistic feelings, possible job losses and political discourses (Meyer et al., 2014). That is, firms vary the ownership control to alleviate legitimacy concerns (Chan & Makino, 2007). Moreover, partial acquisitions reduce the hazards and uncertainties by sharing the risks associated with entries in more unfamiliar distant countries (Gatignon & Anderson, 1988; Lee et al., 2014). Conversely, firms will select higher ownership when entering countries that are less risky (Lee et al., 2014).

Baseline hypothesis 1. The institutional distance between home and host countries is negatively related to the ownership acquired in cross-border acquisitions by LAFs.

2.2. Knowledge access

The foreign expansion of EMNCs through CBAs has been associated with capability building through learning, or accessing knowledge-based resources not available at home (Ferreira, 2008; Luo & Tung, 2007; Vermeulen & Barkema, 2001; Williamson et al., 2014), and linked to catch-up strategies (Cuervo-Cazurra, 2016; Liu & Giroud, 2015). Institutional theory is helpful in explaining how knowledge evolves differently across countries (North, 1990). Peng et al. (2008, p. 367), for instance, state that "knowledge itself is, to a certain extent, institution-dependent" denoting that the institutional infrastructure (including government policies towards R&D and a large range of social norms) determines, at least in part, the effectiveness and efficiency of knowledge creation and transmission. This line of inquiry stipulates that knowledge evolves idiosyncratically across countries because of their own institutions (Berry et al., 2010; Lee et al., 2014) and that by locating in another country a firm may access location-specific knowledge.

Using an institution-based view, two mechanisms need to be scrutinized. First, institutions impact the market mechanisms (Peng, 2012). For example, the institutional environment of LACs has been described as weaker, less munificent, with poor legislation and regulation, suffering from opportunistic and unlawful competitive behavior (Conti et al., 2016). This hinders LAFs from developing technologies, brands, human resources, and so forth (Cuervo-Cazurra & Genc, 2008), needed to compete with their counterparts from developed countries (Cuervo-Cazurra, 2012). Thus, the home institutional inefficiencies and consequent lack of firm-specific advantages push LAFs to pursue knowledge-acquiring strategies different from their developed countries' counterparts (Liu & Giroud, 2015).

Second, institutions shape markets' structure by facilitating or constraining the development of certain industries, technologies and products (Wright et al., 2005). For decades, LACs experienced an economic protectionism and inward-looking behavior, which created difficulties for LAFs to develop knowledge and innovate. Thus, LAFs are likely to use internationalization as a springboard to acquire strategic resources, and learn about technologies and markets that enable them to compete globally (Luo & Tung, 2007).

The ownership stake is an important structural dimension that allows firms to pursue their knowledge strategy (Ferreira, 2008). Conventional institutional-based wisdom suggests that LAFs would prefer shared ownership with local firms that enjoy legitimacy, in an "exchange ownership for legitimacy" (Chan & Makino, 2007; Meyer et al., 2014). We argue that a sole ownership solution is amenable to the lack of international experience and capabilities of LAFs' managers (Peng, 2012), and a managerial risk averse and highly individualistic mindset (Fleury & Fleury, 2014). Full ownership allows greater control, avoids conflicts and tensions with partners and possibly overcomes problems regarding a lack of strategic fit (Chen & Hennart, 2004; Dyer et al., 2004; Malhotra et al., 2016), over the foreign operations. We may thus expect that when the potential to access new knowledge is greater, LAFs will leapfrog the internationalization process and be more willing to take higher risks by adopting aggressive CBA strategies.

Baseline hypothesis 2. Knowledge access is positively related to the ownership acquired in cross-border acquisitions by LAFs.

2.3. Government support

The stream of research on governments' influence on the economy and, to some extent, in driving the timing, location and ownership in firms' internationalization (Casanova & Kassum, 2013; Hoskisson et al., 2013; Kumar & Siddharthan, 2013) has increased over the past decade (Meyer et al., 2014; Pan et al., 2014; Wang et al., 2012). Governments offer some backing to firms, for instance with fiscal incentives, insuring against political risk, enacting double taxation laws and bilateral trade and investment agreements (Luo et al., 2010), thus possibly shaping firms' internationalization (Hong et al., 2014; Wang et al., 2012). However, prior research has under-theorized the different roles that governments may play (Liu et al., 2013; Wang et al., 2012). Research on government influence has been focused on the emerging economies of Asia, especially China, where most firms are state-owned or need to obey to explicit government policies (Child & Rodrigues, 2005; Meyer et al., 2014).

The economies of Latin America, in contrast to other emerging economies, with the implementation of the pro-market reforms (Cuervo-Cazurra & Dau, 2009), including privatization of formerly state-owned firms, are populated by mostly private-owned firms subjected to a more regulatory role of the government (Conti et al., 2016; Peng et al., 2008), and truly state-owned firms are now less salient. In Brazil, the largest LAC, the government ideology (Murtha & Lenway, 1994) seeks to create large multinationals as vehicles to strengthen its economic and political influence in the region and leverage prestige worldwide (Casanova & Kassum, 2013; Musacchio & Lazzarini, 2014). Government support may be especially critical for LAFs that are latecomers to international business and have little international experience (Luo & Tung, 2007), helping to compensate for a lack of managerial skills (Liu & Giroud, 2015), legitimacy (Chan & Makino, 2007), and technological capabilities (Wang et al., 2012). It can further provide privileged access to information about host countries and access to networks, including governmental agencies abroad (Hoskisson et al., 2013; Liu et al., 2013; Luo et al., 2010), or give legitimacy.

We suggest three primary mechanisms for government support that warrant attention in the context of LAC: financing foreign expansion (using subsidies and low interest loans), direct equity participation (or being a shareholder) and political connections (board representatives). A common mechanism of government backing to LAFs is financing the internationalization (Conti et al., 2016; Hoskisson et al., 2013), that may be critical for acquiring assets to compete globally (Child & Rodrigues, 2005), due to the high cost of capital in rather inefficient capital markets (Buckley et al., 2014). For instance, the internationalization of Brazilian multinationals has been supported by governmental financial institutions (Hoskisson et al., 2013), prominently BNDES – the Brazilian Development Bank – and state-owned banks.

Governments can also have equity participation, or be shareholders, in private firms, directly or indirectly, via governmental agencies. We expect that EMNCs with government ownership are more likely to expand overseas (Hong et al., 2014) and have access to resources that firms which lack government ownership do not have (Pan et al., 2014; Shi, Markoczy, & Stan, 2014). Moreover, firms with government ownership are likely to pursue objectives sought by both private shareholders and the government, thus pursuing paths beyond profit maximization (Meyer et al., 2014). Again, using the Brazilian case, the government uses a subsidiary of BNDES, BNDESPAR (BNDES participations), to covertly finance the Brazilian multinationals' CBAs (Hoskisson et al., 2013). Inoue, Lazzarini, & Musacchio (2013) noted that 33% of Brazilian and 50% of Chinese firms of the top 100 publicly traded firms have more than 10% of government ownership.

A third mechanism of support flows through political connections, or ties binding government officials and corporate managers (Liu et al., 2013). Access to government officials can grant firms preferential treatment, and Shi et al. (2014) noted how these ties are good pipes for influencing law making, accessing information and identifying domestic and foreign investment opportunities (Musacchio & Lazzarini, 2014). Politically connected firms have preferential access to domestic banks' financing (Pan et al., 2014) which may explain their higher propensity to engage in CBAs (Liu et al., 2013). We argue that having government as a shareholder poses different problems in host countries than those observed by Meyer et al. (2014) for state-owned firms. Firms with political connections are still private firms that have the additional benefit of having ties to government officials or agencies. Political ties help building legitimacy and prestige in the domestic market. In the foreign markets, these firms are still privately owned and are less subjected to the institutional pressures to gain legitimacy (c.f. Meyer et al., 2014).

Hypothesis 3. Government support is positively related the ownership acquired in cross-border acquisitions by LAFs.

From the perspective of either transaction cost theory (e.g., Brouthers, 2002; Chen & Hennart, 2004; Hennart & Reddy, 2000) or institutional theory, we might expect that when facing higher institutional pressures in more institutionally distant countries, firms would prefer a lower ownership strategy (Pan et al., 2014). This literature suggests that firms entering low risk locations will commit more resources (Gatignon & Anderson, 1988), and conversely will prefer lower commitments when entering unfavorable locations or institutionally distant countries. However, we argue that the actual effect is likely to be moderated by the level and type of government interference in firms. Specifically, we expect that firms that benefit from three forms of government support – equity participation, financing and political connections – can better withstand the uncertainties and risks, perceiving lower transaction costs and changing the institutional conditions of the host country in their favor. In the following sections, we explain the three mechanisms of government support and how they moderate the negative influence of institutional distance on the ownership acquired.

Meyer et al. (2014) noted how state-owned firms suffer more institutional pressures than privately-owned, explaining why, unlike privately-owned, state-owned firms prefer to engage in local partnerships, acquiring partial ownership, to mitigate host legitimacy concerns (see also Chan & Makino, 2007; Cui & Jiang, 2012). Partial acquisitions have a lower public profile and generate lesser challenges to the legitimacy of the acquirer. Meyer et al. (2014) advanced a number of explanations concerned with how state-owned firms are perceived – the ideological tensions based on market and state led economies (Musacchio & Lazzarini, 2014), fears of losing technologies to foreign governments, lack of transparency, and so forth. Many of these arguments have been developed by examining Chinese multinationals, that are usually state-owned (see Meyer et al., 2014) while in Latin America the situation is rather different: firms are privately owned but some are backed by the government using relatively small equity participation. Governments as shareholders may use firms to pursue their own ideologies and objectives (Inoue et al., 2013; Musacchio & Lazzarini, 2014). In Latin America, the benefits accruing from government participation include having access to lower interest rate financing than in the open markets, and firms operating under the premise of a financial bailout from the state (Buckley et al., 2007; Cuervo-Cazurra & Dau, 2009; Pan et al., 2014). Government support may also entail benefitting from preferential policies (Cui & Jiang, 2012) and the assistance of home government offices abroad (Buckley et al., 2007). These conditions facilitate the acquisition and engaging in higher ownership entry.

Government support in financing foreign acquisitions is likely to lead firms to downplay the transaction costs and better cope with the uncertainties and risks of institutional distance (Pan et al., 2014) in the foreign investment. To at least some extent, managers are more prone to exhibit a more risk taking behavior than managers of firms without government financing. For instance, in Brazil, even minority government ownership – through BNDESPAR – can be a mechanism to address institutional inefficiencies (Inoue et al., 2013), shield the firms from intervention (Child & Rodrigues, 2005), and facilitate foreign acquisitions by lowering firms' disbursement.

The third mechanism involves the influence exerted through political connections to government officers and agencies. We argue that firms holding political ties are better able to cope with risks and uncertainties in adverse institutional foreign environments, mitigating transaction costs and legitimacy concerns. These ties are conduits for access to information and resources, but also to social capital or reputation (Cui & Jiang, 2012) providing firms an advantage in analyzing foreign institutional environments. Political connections are a political resource (Meyer et al., 2014) that grants access to institutions, the ability to influence host-country policy and law-making in their favor (Hillman & Hitt, 1999), and gain preferential treatment from foreign host governments (Pan et al., 2014).

In sum, we argue that government support is likely to reduce the LAFs' perceived uncertainty and risks that arise from the institutional differences between the home and host countries, in such a manner as to reduce the effect of institutional distance on the CBAs' ownership and thus leading to the acquisition of a greater ownership stake, perhaps a full acquisition. That is, LAFs are more prepared to take advantage of the risk-safeguard mechanisms (Luo et al., 2010) that are established through government support and have a higher risk tolerance (Pan et al., 2014). Hence, the effect of foreign institutional environments on ownership decreases when holding the government as a shareholder, when accessing financing and holding political ties, which implies a negative moderating effect.

Hypothesis 4. Government support weakens the impact of home-host countries institutional distance on the ownership acquired in cross-border acquisitions by LAFs.

Government support in upgrading firms and the knowledge capabilities of the country (Kumar & Siddharthan, 2013) varies considerably across countries. To comprehend these differences we ought to observe the countries' institutions. China created the "going global" program and adopted an industrial policy that was selective and geared towards strategic industries, promoting international competitiveness through the engagement with technology, attraction of investment, and complemented with a foreign trade policy. In Latin America, the reliance on subsidiaries of developed country multinationals as locomotives of import-substitution industrialization resulted in local firms assuming a low-profile attitude in what concerns technological innovation (Fleury & Fleury, 2014). Concurrently, governments were not motivated to provide technological support for their firms, what Nelson (1993) coined as National Innovation Systems (NIS). Other late-industrializing countries created complex and sophisticated NIS, such as Korea where the Korean Institutes for Science and Technology were of paramount importance for economic development and the competitiveness of its multinationals.

In contrast, LACs were unable to create similar structures and their firms were obliged to search for technological advancement elsewhere or to accommodate to local constraints. More recently, government's outward investment policies are targeting specific sectors and locations. These policies are still interwoven with import substitution industrialization and coerce firms to engage in the global value production chains for bettering the country's "brand" by entering more developed countries and dissimilar businesses where the learning, or upgrading, potential is higher. For instance, the Brazilian somewhat "parochial" political vision of creating "national champions" did not target strategic motivations; however, currently, BNDES focus on supporting innovation-based sectors where Brazilian multinationals lack competitiveness (Casanova & Kassum, 2013).

As discussed previously, a primary motivation for EMNCs engaging in CBAs is to access complementary resources and learn or reinforce those already held (Ferreira, 2008; Vermeulen & Barkema, 2001). To access new resources and increase international competitiveness, LAFs often need the influx of capital and the political support of governments. We argue that government support helps to reduce the impact of institutional voids, such as inadequate institutional infrastructure (Li & Atuahene-Gima, 2001), on knowledge access. For example, Li and Atuahene-Gima (2001) show that government support strengthened the relationship between product innovation and firm performance. Su et al. (2016) reported a positive effect of government support on the relationship between knowledge creation capability and firm performance.

Hypothesis 5. Government support strengthens the impact of knowledge access on the ownership acquired in cross-border acquisition by LAFs.

3. Method

The scope of the empirical study is bound to LAFs and we further delimited the scope to the main country in Latin America – Brazil –, one of the largest sources of outward FDI among emerging economies (Conti et al., 2016). LACs share similarities in terms of the cultural histories and trajectories, relative pace of economic and societal development and the prevailing business culture (Khoury, Junkunc, & Mingo, 2015). Nonetheless, there is also a large amount of heterogeneity among these countries that have undergone different levels of internal transformations led by internal political changes and external events. By focusing only on Brazilian multinationals (BrMNCs), we reduce the potential impact of unobservable factors. The focus on Brazil also contributes to the extant research on LAFs, or multilatinas, as an empirical setting (Cuervo-Cazurra & Dau, 2009).

In Brazil the industrial policies stimulated local firms to focus on the large domestic market and pay little importance to the external markets. The discontinuity of macroeconomic policies has raised uncertainty and unpredictability to which local firms reacted by resisting long term investments and focusing on short term financial indicators of performance. The local conservative cultural values and hierarchic organizations, centralized and risk averse, are features that favor both CBAs as the expansion mode and the decision on the equity ownership structure.

3.1. Data and sample

We used a sample of CBAs undertaken by Brazilian multinationals, drawn from Thomson's Reuters SDC Platinum database. This database has been widely used in studies of domestic and cross-border acquisitions (e.g., Buckley et al., 2014; Contractor et al., 2014; Lahiri et al., 2014). SDC includes non-US acquisitions from 1985 onwards and it records 619 CBAs made by BrMNCs up to 2012, of which 385 are in the focal period of 2006–2012.

In selecting the sample, we followed five procedures. First, all acquirers were Brazilian firms as classified by Thomson SDC, based on the location of the headquarters, and the targets were foreign. Second, we included only completed CBAs with known name and nationality of acquirer and target firms. Third, we excluded acquisitions registered in tax heavens according to the Brazilian laws (e.g., Aruba, Bahamas, Bahrain, Belize, Bermuda, Costa Rica, etc.), because these can be described as round-tripping.[1] Fourth, we excluded deals with missing data on variables of interest. Finally, we excluded acquisitions of less than 5% of the equity of the target to avoid capturing portfolio investments. In our sample, the CBA involving the lowest equity share was 5.75%.

The final sample comprises 262 CBAs undertaken between 2006 and 2012, by 134 BrMNCs – including conglomerates such as Votorantim (whose subsidiaries accounted for 14 acquisitions), Marfrig (13), Gerdau (11) and JBS (8) – in 41 countries.[2]

3.2. Variables

The dependent variable was the *ownership acquired*, classified dichotomously in full (1) versus partial (0) acquisitions (Brouthers, 2002; Chen & Hennart, 2004; Malhotra et al., 2016). A full acquisition consisted in buying 100% ownership of a target firm, while a partial involved less than 100% (Lahiri et al., 2014) but more than 5% of the target's equity. Other studies have utilized various cut-off thresholds to capture ownership structures, such as a 50% cut-off (Contractor et al., 2014), 80% (Chen & Hennart, 2004), 90% (Demirbag et al., 2007), and 95% (Brouthers, 2002). Any equity stake less than 100% entails having a partner, thus suggesting other motivations such as learning from the partner (Ferreira, 2008) or level of control over the foreign subsidiaries that are beyond our scope.

3.3. Independent variables

Institutional distance between home and target country was measured using Berry et al. (2010) which is publicly available data.[3] Berry et al. (2010) advanced a taxonomy of nine institutional dimensions – economic, financial, political, administrative, cultural, demographic, knowledge, global connectedness and geographic – and an overall institutional distance measure as an aggregate of the nine dimensions. Institutional distance was measured between Brazil and each of the target countries, one year prior to the announcement of the CBA since managers evaluate the host environment prior to investing. We further considered one year prior to completion but for 95% of the acquisitions, the day of announcement was the same as the day of completion, as reported in SDC.

Knowledge access evaluates the learning potential of a CBA and was measured using two variables. *Business knowledge access* was measured using a common measure of industry relatedness by comparing the primary SIC codes (3-digits) of the acquirer and target firms (Lahiri et al., 2014). We coded this as a dummy variable, 1, if the firms had different primary SIC codes, and 0 otherwise, with data collected from SDC Platinum. *Country knowledge access* identifies the potential to learn in the target countries, since countries differ in their capacity to create knowledge and to innovate, and multinationals may seek proximity to new sources of knowledge (Berry et al., 2010) to benefit from spillovers and access different pools of innovation, talent and creativity. We used Berry et al.'s (2010) knowledge distance (using the natural logarithm) between each pair of acquirer (Brazil) and target countries.

We used three complementary variables of *government support* to firms: financing, stock participation and political ties. The Brazilian government uses BNDES – the Brazilian National Bank for Economic and Social Development – as its economic arm for economic intervention. BNDES is the key supporter of Brazilian firms' internationalization and lever to acquire abroad (Musacchio & Lazzarini, 2014). BNDES is one of the largest development banks in the world, second only to the Chinese Development Bank.

Government financing (*BNDES Financing*) measured whether the Brazilian firm had funding support for the acquisitions. The data were collected from BNDES reports available in the institutional website, firms' annual reports and from the news in the Brazilian media. We coded BNDES financing as a dummy variable, with 1 for firms that had financing from BNDES and 0 otherwise. While we were able to identify if the firm had financing from BNDES for foreign investment, in many cases we could not identify the exact value financed in each acquisition. Government participation as a shareholder (*BNDES Stock participation*) assessed whether *BNDESPAR* (BNDES Participations) was a shareholder. BNDESPAR is a subsidiary of BNDES that manages the ownership participations held by BNDES. This variable was measured as the percentage of equity shares owned by BNDESPAR, with data collected from Economatica and BM&F-BOVESPA databases and corporate annual reports. Finally, the political ties (*BNDES political ties*) measured whether the BrMNCs had members of the board who were connected to BNDES, counting the number of board members with connections to BNDES. Specifically, we scrutinized the curricula of all the top executives, members of the board of directors, advisory board and board of auditors, accessed in the firms' annual reports, corporate website on the internet, and the Economatica database, to identify whether the members worked at BNDES, had previously worked at BNDES, or were BNDES board members.

3.4. Control variables

We included firm, industry and country controls. We controlled for *acquirer* and *target size* measuring size by the log value of the total assets of acquiring and target firms with data retrieved from Bloomberg, Orbis and Thomson Reuters databases. Firms' knowledge intensity – *Acquirer high-tech* and *Target high-tech* – was measured dichotomously with 1 for high tech firms, and 0 for non-high tech, with data from SDC Platinum that signals whether the firms are high technology. A control for whether the *acquirer* firm *is traded* on the stock market, was coded 1 if traded, and 0 otherwise, with data from the SDC Platinum. Target firms that were being *privatized* were coded as 1 and 0 otherwise.

We controlled for firms' experience in CBAs since firms holding an acquisition capability may prefer higher ownership (Chari & Chang, 2009; Lahiri et al., 2014). We measured acquirer *CBA experience* by the cumulative number of CBAs completed since 1985–the first year for which SDC includes reports on non-US acquisitions – until the focal deal (Buckley et al., 2014). *Prior acquirer CBA experience in the focal country* accounts for experience in conducting CBAs in the institutional milieu of the host country, and was measured by the number of prior CBAs in the target country. Both experience measures were used in logarithmic form. The acquirer firm *industry* was included as a dummy variable, with 0 – manufacturing, and 1 – service. All transactions involving

[1] Round-tripping occurs when companies undertake investments abroad into offshore funds and brings them back to their home country as inward FDI, often for tax evasion purposes.

[2] Target countries: Argentina (51), Australia (3), Austria (2), Belgium (4), Benin (1), Bolivia (1), Canada (8), Chile (16), China (1), Colombia, (13), Czech Rep. (1), Dominican Rep. (3), Ecuador (1), France (6), Germany (2), Guatemala (1), India (1), Israel (1), Italy (5), Japan (3), Mexico (13), Mozambique (2), Namibia (3), Netherlands, (6), New Zealand (1), Nicaragua (1), Norway (4), Paraguay (3), Peru (12), Portugal (14), Senegal (1), South Africa (2), Spain (6), Sweden (1), Switzerland (1), Turkey (3), UK (4), USA (48), Uruguay (11), Venezuela (2).

[3] Data is publicly available at http://lauder.wharton.upenn.edu/ciber/research/faculty.php# (cross-national distance data).

Table 1
Descriptive statistics and correlation matrix.

	Variable	Mean	Std. Dev.	1	2	3	4	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1	Ownership acquired	0.56	0.14	1.000																	
2	Inst. distance (1yr prior)	58.4	23.8	0.159**	1.000																
3	Business knowledge	0.5	0.5	0.091	0.199**	1.000															
4	Country knowledge (ln)	−1.2	3.4	0.141*	0.829**	0.161**	1.000														
5	BNDES Financing	0.6	0.5	−0.113	−0.119	−0.137*	−0.120	1.000													
6	BNDES Stock participation	4.5	8.0	0.031	0.005	−0.034	0.023	0.626**	1.000												
7	BNDES Political ties	0.4	0.9	0.031	−0.049	0.032	−0.026	0.425**	0.579**	1.000											
8	Geographic distance	5800.3	3243.6	0.057	0.757**	0.142*	0.582**	−0.077	−0.004	0.078	1.000										
9	Main host countries	0.4	0.5	0.029	0.135*	−0.105	0.086	0.106	0.008	−0.061	−0.133*	1.000									
10	Acq. GDP growth	4.0	2.5	−0.014	−0.033	−0.036	0.003	0.097	0.123*	0.087	0.002	−0.016	1.000								
11	Acq. industry	0.4	0.5	0.071	0.111	0.190**	0.108	−0.228**	−0.071	−0.103	0.021	−0.021	−0.097	1.000							
12	Acq. high-tech intensity	0.1	0.3	0.185**	−0.014	−0.133*	0.033	−0.193**	−0.209**	−0.196**	−0.113	0.113	−0.065	0.159**	1.000						
13	Tg. high-tech intensity	0.1	0.4	0.083	0.055	−0.143*	0.057	−0.138*	−0.202**	−0.200**	−0.036	0.104	−0.058	0.170**	0.704**	1.000					
14	Acq. size (ln)	12.5	4.4	−0.138*	0.115	0.088	0.151*	−0.033	0.033	−0.036	0.085	−0.065	−0.302**	0.207**	0.014	0.030	1.000				
15	Tg. size (ln)	11.4	3.1	0.097	−0.099	0.027	−0.080	0.086	−0.031	0.096	−0.055	−0.084	−0.034	−0.020	−0.044	−0.044	−0.079	1.000			
16	Tg. privatization	0.0	0.1	−0.049	−0.011	−0.046	0.006	0.081	0.007	−0.053	−0.002	−0.176**	0.084	−0.057	−0.163**	−0.118	0.073	−0.100	1.000		
17	Acq. is traded	0.9	0.3	−0.008	−0.067	−0.100	−0.127*	0.054	0.019	−0.036	−0.074	0.013	−0.081	0.012	0.079	0.025	0.149*	0.020	−0.076	1.000	
18	Acq. experience in country (ln)	0.3	0.5	−0.175**	−0.104	0.114	−0.107	0.240**	0.194**	0.137*	−0.108	0.225**	0.062	−0.153*	−0.203**	−0.260**	0.028	−0.073	−0.039	−0.040	1.000
19	Acq. CBA experience	3.9	5.9	−0.196**	−0.172**	0.047	−0.133*	0.367**	0.354**	0.253**	−0.101	−0.056	0.183**	−0.131*	−0.265**	−0.303**	0.020	0.012	0.072	−0.012	0.591**

Notes: Institutional distance 1yr prior to announcement. †$p < 0.10$; *$p < 0.05$; **$p < 0.01$.

2-digit SIC codes 20–39 were coded as manufacturing, and SIC codes greater than 39 as service.

At the country level, we controlled for *geographic distance* using the great circle distance between geographic centers of countries. We included the variable *Main host countries* as dichotomous, coded as 1 if the acquisition was in Argentina or the US, because nearly 40% of the acquisitions were in these countries, to account for exogenous variance in the target countries. Finally, the *acquirer country GDP growth* is a measure of home market dynamism (Lahiri et al., 2014), accounting for greater CBAs' activity and the acquisition of larger ownership. Data for the GDP *growth* were collected from the World Bank database.

4. Results

Table 1 summarizes the descriptive statistics and correlations. The correlations are not as high as to raise concerns on multicollinearity and the Variance Inflation Factors (VIFs) are generally below 3.

Table 2 comprises the results of a logistic model where the dependent variable is dichotomous and 1 corresponds to full ownership. Model 1 includes the control variables. Model 2 tests the baseline expectation of a negative relation between home-host countries' institutional distance and the ownership acquired. This was supported by the rationale that entering a different institutional environment reduces firms' ability to understand and operate, increases information and administrative costs, and pressures to gain legitimacy, resulting in their hesitation to pursue foreign markets aggressively (that is, undertaking the full control of the foreign subsidiary) (Malhotra et al., 2016). However, Model 2 shows a significant but positive effect of institutional distance on the ownership ($\beta = 0.026$, $p < 0.05$), denoting that greater institutional distance actually increases the propensity for a full acquisition. This result may be explained by the prevailing culture of Brazilian managers that have a low propensity to accept partnerships with foreigners and instead prefer to exert total control of the subsidiaries using centralized organizational structures. Having to perform in extremely turbulent conditions at home gives Brazilian managers a perception of being able to manage very complex situations. They perceive the risks as lower than a broad institutional distance measure would presume. Additionally, as noted by Malhotra et al. (2016), being latecomers to the international arena, BrMNCs may be motivated to bypass intermediate models of governance and take full ownership in CBAs.

Baseline expectation 2 proposes a positive effect of knowledge access, or learning potential, on the ownership acquired. We found significant and positive coefficients for business (β=0.635, $p < 0.05$) and country ($\beta = 0.153$, $p < 0.05$) in Models 3 and 4. Hence, BrMNCs will tend to take full ownership in CBAs with greater learning potential. Brazilian managers' experience has been largely developed at home in a rather closed economy leading them to be mistrustful of foreign firms and, unlike Asian managers, avoid situations requiring negotiating with partners, such as in partial acquisitions. Moreover, a cultural legacy favors using hierarchical governance to transfer knowledge internally.

Models 5–7 test Hypothesis 3 on the direct effect of government support. Three measures of support were employed – financing, stock participation and political ties – and the results largely confirm the hypothesis, with a positive and significant coefficient for the effects of stock participation ($\beta = 0.050$, $p < 0.05$) and political ties ($\beta = 0.348$, $p < 0.05$) on the ownership acquired, albeit we failed to find an effect for financing. While this may seem surprising, given the claims that the financial support is critical in the expansion of LAFs, it is worth pointing out that our measure captures whether there was some financing, not how much, since

Table 2
Logit regressions for the ownership acquired.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12	Model 13
Inst. distance (1yr prior)		0.026*						0.021†	0.035***	0.031**			0.009
Business knowledge access			0.635*								0.218		0.185
Country knowledge access (ln)				0.153*								0.123	0.108
BNDES Financing					−0.105			−0.605			−0.865†	−0.191	−2.174
BNDES Stock participation						0.050*			0.203**		0.029	0.024	0.192
BNDES Political ties							0.348*			0.992†	0.484	0.242	−1.031
Inst. dist. * BNDES Financ.								0.011					0.031
Inst. dist. * BNDES Stock part									−0.003**				−0.004
Inst. dist. * BNDES Pol. ties										−0.011			0.020
Business know. * BNDES Financ.											0.544		0.237
Business know. * BNDES Stock part.											0.053		0.103†
Business know. * BNDES Pol. ties											−0.403		−0.080
Country know. * BNDES Financ.												0.211*	0.034
Country know. * BNDES Stock part.												−0.026***	−0.010
Country know. * BNDES Pol. ties												−0.057	−0.202
Geographic distance	0.000†	0.000	0.000	0.000	0.000†	0.000†	0.000†	0.000	0.000	0.000	0.000	0.000	0.000
Main host country	0.150	−0.308	0.221	−0.164	0.162	0.189	0.207	−0.334	−0.200	−0.289	0.354	0.071	−0.039
Acq. GDP growth	−0.018	−0.006	−0.023	−0.029	−0.018	−0.031	−0.023	−0.008	−0.007	−0.007	−0.033	−0.010	0.003
Acq. industry	0.332	0.252	0.204	0.276	0.313	0.361	0.367	0.264	0.261	0.307	0.197	0.252	0.180
Acq. high-tech intensity	1.702**	1.945**	1.919**	1.779**	1.689*	1.760**	1.764**	1.879**	2.298**	2.103**	1.916**	2.122**	2.509***
Tg. high-tech intensity	−0.935	−1.223†	−0.983	−1.048†	−0.942	−0.825	−0.846	−1.198†	−1.300†	−1.194†	−0.841	−1.075†	−1.255†
Acq. size (ln)	−0.102**	−0.105**	−0.109**	−0.116***	−0.102**	−0.104**	−0.100**	−0.106**	−0.108**	−0.100**	−0.112**	−0.105**	−0.121**
Tg. size (ln)	0.102*	0.110*	0.110*	0.117*	0.103*	0.096*	0.104*	0.110*	0.107*	0.110*	−0.983	−0.494	−0.268
Tg. privatization	−1.232	−0.839	−1.394	−0.886	−1.178	−1.006	−1.288	−0.781	−0.522	−1.208	0.990†	1.383*	1.424*
Acq. is traded	0.561	0.491	0.628	0.565	0.573	0.749	0.792	0.486	0.965†	0.889	0.105*	0.116*	0.108*
Acq. experience in country (ln)	−0.100	−0.054	−0.241	−0.047	−0.092	−0.144	−0.135	−0.023	−0.168	−0.062	−0.269	−0.067	−0.229
Acq. CBA experience	−0.070*	−0.069*	−0.065*	−0.068*	−0.068*	−0.082**	−0.078**	−0.074*	−0.079**	−0.083**	−0.082*	−0.088**	−0.092**
Constant	−0.494	−1.027	−0.770	0.518	−0.459	−0.703	−0.899	−0.641	−2.157*	−1.846†	−0.670	−0.636	−0.732
chi-square	38.882	46.091	43.541	45.440	39.001	45.605	43.415	46.830	59.472	53.237	56.592	68.446	79.628
R^2	0.185	0.216	0.205	0.213	0.185	0.214	0.205	0.219	0.272	0.246	0.260	0.308	0.351
N	262	262	262	262	262	262	262	262	262	262	262	262	262

Notes: †$p < 0.10$; *$p < 0.05$; **$p < 0.01$, ***$p < 0.001$.

there is a great lack of transparency about the actual values involved in the financing by BNDES. Regarding the effect of stock participation and political ties, it is a common practice of BNDES to have board representatives in firms where it holds shares. BrMNCs' managers need to comply with BNDES' rules that reinforce the propensity towards full acquisitions, because it provides increased control over the venture. This may also be evidence of an alliance capitalism (Musacchio & Lazzarini, 2014) in which the partnership between firms and government provides safety in foreign investments.

Hypothesis 4 states that the negative impact of institutional distance on ownership will be weaker when there is government support. Models 8–10 show the coefficients for the interaction terms. In Model 9, the coefficient for the moderating effect of having the government as a shareholder was significant but negative ($\beta = -0.003$, $p < 0.01$), but the results for financing (Model 8) and political ties (Model 10) did not yield significant coefficients. Having government support through political ties does not change the effect of institutional distance on ownership acquired. When the government moves from financier to investor, it seems to have a greater risk aversion, such that when entering more institutionally distant countries a partial ownership stake is preferred. This is interesting and may provide partial support for a need to gain legitimacy in the host countries for firms that have state ownership (Meyer et al., 2014), and a mechanism for gaining host legitimacy is by engaging in partial ownership.

Hypothesis 5 proposes that government support strengthens the relationship between knowledge access and ownership. The tests in Models 11 and 12 for business knowledge access were not significant. We found partial support for country knowledge access, but the results are not straightforward since stock participation had a negative and significant effect ($\beta = -0.026$, $p < 0.001$) and financing a positive and significant effect ($\beta = 0.211$, $p < 0.05$). These results suggest that governments intervene by means of financial support to access important country level knowledge to build the firms' and the country capabilities. These results suggest that governmental agencies share a similar risk aversion pattern to that of the managers. The government as shareholder is likely to impose a more risk averse behavior in deals that depart more substantially from the knowledge already held. Hence, the traditional arguments of risk and control that have been applied to much of the research on ownership (Chari & Chang, 2009) may be supplemented by behavioral – from the managers – and political – from the government – considerations. The

Table 3
Subgroups analyses for government support.

	With gov. financing				With stock participation				With political ties				With financing, stock part and pol. ties			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14	Model 15	Model 16
Inst. distance (1yr prior)	0.035*			0.021*	0.018			0.008	0.031			0.021	0.019			−0.040
Business knowledge		0.928*		0.755		1.494**		1.451**		1.882*		1.777*		1.834*		2.157*
Country knowledge (ln)			0.167*	0.065†			0.060	−0.020			0.168	−0.000			0.057	0.063
Geographic distance	0.000	0.000	0.000	−0.000***	0.000	0.000	0.000	−0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Main host country	−0.320	0.380	−0.050	−0.200***	0.146	0.764	0.342	0.647	0.917	1.937*	1.092	1.615	0.909	1.753†	1.100	0.755
Acq. GDP growth	0.019	0.020	−0.002	0.014*	0.068	0.073	0.060	0.076	0.042	0.048	0.018	0.028	0.080	0.072	0.092	−0.060
Acq. industry	0.596	0.525	0.621	0.46	0.683	0.483	0.686	0.482	0.317	−0.265	0.297	−0.28	0.951	0.583	0.958	−0.370
Acq. high-tech intensity	1.576	1.775	1.365	2.107	−21.849	−20.713	−21.966	−20.700	−1.034	0.343	−1.150	0.447	−1.903	−0.693	−2.081	0.820
Tg. high-tech intensity	−1.586	−1.419	−1.348	−1.750***	21.653	21.249	21.808	21.180	–	–	–	–	–	–	–	–
Acq. size (ln)	−0.104*	−0.113*	−0.114*	−0.120***	−0.136*	−0.173*	−0.144*	−0.170*	−0.116	−0.183†	−0.138	−0.190	−0.105	−0.196	−0.109	−0.210†
Tg. size (ln)	0.154*	0.156*	0.165**	0.167	0.178*	0.197*	0.188*	0.193*	0.246*	0.291*	0.270*	0.301*	0.383*	0.465**	0.386*	0.370**
Tg. privatization	−0.855	−1.740	−0.900	−1.100***	−20.125	−19.576	−20.148	−19.600	0.238	0.399	0.014	0.422	−18.330	−17.166	−18.375	−18.400
Acq. is traded	0.132	0.081	0.210	0.049*	−0.371	0.014	−0.223	−0.050	−0.019	0.521	0.200	0.406	0.200	0.741	0.367	0.710
Acq. experience in country (ln)	0.027	−0.329	0.006	−0.020***	0.407	0.217	0.392	0.114	0.334	0.247	0.365	0.162	0.965	0.965	0.983	0.639†
Acq. CBA experience	−0.075*	−0.060†	−0.068*	−0.070***	−0.072†	−0.062	−0.069†	−0.060	−0.026	0.006	−0.030	0.012	−0.028	0.002	−0.039	−0.090
Constant	−1.689	−1.107	0.045	−1.130***	−0.786	−1.005	−0.150	−1.240	−3.127	−3.666	−1.449	−4.14	−5.290†	−6.279*	−4.568	−1.450
chi-square	30.855	29.515	29.039	34.455	23.606	31.050	22.711	31.179	14.511	19.052	14.225	19.775	17.250	21.573	16.895	25.478
R^2	0.234	0.225	0.221	0.258	0.269	0.343	0.260	0.344	0.255	0.324	0.251	0.335	0.334	0.403	0.328	0.408
N	160	160	160	160	105	105	105	105	82	82	82	82	70	70	70	70

Notes: Institutional distance 1yr prior to announcement. †$p < 0.10$; *$p < 0.05$; **$p < 0.01$, ***$p < 0.001$.

influence of government through stock participation makes BrMNCs more prone to make partial acquisitions, both in instances of greater institutional distance and to access country knowledge.

4.1. Post-hoc tests

We further conducted analyses for the different mechanisms of government support (Table 3). The results compare the impact of institutional distance and knowledge access, on CBAs' ownership when firms benefit from each of the three types of government support. A final analysis was conducted for firms that hold all forms of support simultaneously.

Results warrant some analyses. First, observing group (1) pertaining to government financing, confirms the propensity to acquire full ownership, with positive significant coefficients (Models 1–3). That is, firms benefitting from government financial support tend to undertake full acquisitions in more institutionally distant countries (Model 1), in businesses more dissimilar to their core business (Model 2) and in accessing location knowledge (Model 3). Firms that have government financing will be more likely to acquire total ownership in any case – higher institutional distance, when there is a greater learning potential in an industry different from the firm's original industry and also when there is a great learning potential by accessing local knowledge. Having a greater pool of financial resources at low interest or through subsidies reduces the risk for the firm that needs to commit less of its own capital. For instance, Bematech (a producer of printing equipment for commercial applications) acquired Logic Controls in the USA, in 2008, with an US$ 8 million support from BNDES. While Bematech was a hardware manufacturer, Logic Controls was a software development company with a manufacturing plant in China. With this acquisition Bematech moved up in the value chain, accessed knowledge in a complementary industry as well as country knowledge related to technology and markets.

Second, observing group (2) concerning government support through stock participation (Models 5–8), the results show that the government as a shareholder has a positive significant impact on ownership in accessing business-related knowledge (Models 6 and 8). Interestingly, firms with government participation will perform full acquisitions, rather than partial, when accessing business knowledge, perhaps denoting a primary emphasis of the Brazilian government on the acquisition of business knowledge. This is likely to be a reflection of the policy to create the national champions. These firms will augment their resources and capabilities by transferring them to the country and thus helping leverage their domestic industries to become more internationally competitive. In fact, endeavoring in CBAs has been a major form of expansion of the firms supported by the government. An illustrative example may be the acquisition of Swift by JBS and of Anheuser-Busch by InBev-Ambev. These CBAs mostly entailed acquiring business knowledge, and the concerns with country-level institutional or knowledge differences were not crucial.

The third analysis on the political ties also reveals that firms holding political connections tend to take a full acquisition in different businesses (Models 10 and 12). Hence, holding political ties and having the government as a shareholder are significant in promoting the access to business knowledge and the acquisitions aim at upgrading within the global value chains. The effect of political ties is interesting because it is often thought that political connections are especially relevant in helping to overcome domestic institutional inefficiencies and exploit market imperfections, gain contracts, and so forth, but they are also likely to support internationalization. Firms which have the BNDES as member of their boards may be involved in what Musacchio and Lazzarini (2014) refer to as alliance capitalism.

The final analysis observed the behaviors of firms that have all mechanisms of government support simultaneously (Models 13–16). Firms holding the three types of support are probably associated to the governmental projects and may be considered, perhaps, as an instrument for the realization of governmental objectives. Only business-related knowledge was significant, again probably denoting the new policies towards upgrading firms' competitiveness even as a vehicle to leverage political and economic country power. Hence, government support through stock participation, political ties and the three forms simultaneously seem to persuade firms to engage in full ownership when accessing business knowledge.

During the period covered by the data (2006–2012), both the Lula da Silva and Dilma Rousseff's governments sought to create links with less developed countries of Latin America and Africa. For firms, that meant entering countries that were less capable in their original industries, which represented an incentive to acquire in different industries. Firms adapted acquiring in industries that contributed to their strategies. For example, Petrobras acquired in Argentina a network of services providers and competences in nuclear energy, not related to the production of oil and gas.

To at least some extent, this evidence confirms our previous explanations on the individualistic and conservative style of Brazilian managers that have great difficulty in collaborating. This is in contrast to Mathews (2006) on the Asian Dragon multinationals. Instead of searching for collaborations for Linking, Leveraging and Learning, Brazilian managers prefer sole ownership when benefitting from governmental support. The partial and complete effects of the different outcomes of government support thus seem to point to governments intervening substantially in the international strategies pursued by LAFs. The political agenda of augmenting the country's capabilities, developing a selected number of industries by favoring knowledge access and innovation that the country may then leverage to gain more regional and international hard power, is executed primarily by influencing decision making through shareholding and political ties (often membership of the Board of Directors). While the host country's pressures towards legitimacy may exist, governmental financial backup helps to overcome the risks entailed, and inter-governmental ties may impart political advantages in the host country. In this regard it is worth noting that government financing also occurs after the fact, that is after the firm has already made the CBA, and also to bail out firms in financial distress. Hence, the positive effect of government support is stronger on ownership for firms that benefit from all mechanisms of government support, further illustrating how firms' strategies may vary given government intervention.

We conducted robustness tests. We tested the models using institutional distance two years prior to the announcement of the focal CBA deal, instead of one year. We further tested the models using a variable representing neighbor countries instead of geographic distance. Neighbor countries was a control variable for countries that share a common land border with Brazil. The results remained identical for both tests.

5. Discussion and concluding remarks

Multinationals' strategies and structural choices are influenced by their home and host countries' institutional milieus and how they differ (Kostova, 1999; Meyer et al., 2014; North, 1990; Scott, 1995). In the case of Latin American firms, or multilatinas, a core institutional facet is how governments support the internationalization and ownership decisions in foreign operations. We have examined how the usual arguments based on institutional theory or transaction costs may need to take into account the role played by Latin American governments, which is different from the role of the centralized economies of Asia and the market economies of Europe and the US for instance. Latin American governments' support provides access to additional financial, political, reputational and informational resources that could lead firms to prefer lower ownership modes, but is likely to also require firms, at least in part, to adjust their strategies to fulfill government objectives (Murtha & Lenway, 1994; Musacchio & Lazzarini, 2014; Wang et al., 2012) thus suffering higher pressure for local legitimacy (Meyer et al., 2014).

Extant literature based on institutional theory (e.g., Contractor et al., 2014; Cuervo-Cazurra & Genc, 2008; Peng et al., 2008) has been munificent in noting how emerging countries' institutions differ, their institutional weaknesses, or voids, and how these factors influence firms' strategies. These weaknesses can manifest themselves differently across countries (Wright et al., 2005). For instance, Asian countries, such as China and Korea present a set of institutional conditions – based on historical, economic, political, cultural, etc., trajectories – that differ from those of Latin America. Among the many institutional differences, there is a stark contrast in the manner governments intervene in the economy. China, for instance, is a more centrally planned economy where the government has acted to set guidelines for OFDI, improved administrative processes, eased capital controls and acted to inform firms on foreign opportunities (Hoskisson et al., 2013). Moreover, a majority of the Chinese multinationals are state-owned (Meyer et al., 2014). In contrast, LACs adopted import-substitution industrialization models and have implemented many pro-market reforms (Cuervo-Cazurra & Dau, 2009), supporting the internationalization of private LAFs by government funding (Hoskisson et al., 2013), to overcome ineffective capital markets and high cost of capital. However, a clear strategy was lacking and only a set of privileged firms gained governmental support.

We extend the institution-based view, analyzing the behavior of LAFs, and Brazilian multinationals, in regard to their ownership strategies in cross-border acquisitions. We have predicted that multilatinas would prefer lower ownership to enter institutionally distant countries and higher ownership to learn across borders. We then specifically delved into the role of government support directly and in moderating the effect of institutional distance (weakening) and learning potential (strengthening) entailed in the acquisitions. We argued that when holding government support, firms will see the transaction costs and institutional pressures differently and will act accordingly by undertaking higher ownership entries. We are thus able to contribute to the stream of thought on the influence of political factors (Meyer et al., 2014; Pan et al., 2014) on the internationalization of multinationals.

Our findings demonstrate that LAFs undertaking CBAs prefer full acquisitions when the institutional distance to the host country is large. The results contrast with the received transaction costs' wisdom that facing higher levels of uncertainty, LAFs would prefer guarding themselves against riskier operations by pursuing structural solutions involving lower commitment of resources and retaining flexibility (Demirbag et al., 2007; Gomes-Casseres, 1990; Lee et al., 2014). In these cases, LAFs should acquire lower ownership in the target firms. Notwithstanding, two notes must be added. First, LAFs are newcomers to the international markets and have a limited acquisition capability in assessing risks and opportunities. In these instances, it is possible they engage in a CBA wave driven by, among others, CEO hubris. Second, we need to account for a government-led push to internationalize and governments' ideology to leverage economic power – perhaps more notably in the regions – and improve the countries' capabilities.

We have established a baseline expectation that LAFs would prefer higher ownership when the potential for business and location learning is higher. The extant knowledge advances that shared ownership with a local partner is a better solution when the motivation is to learn and absorb from dissimilar resources and capabilities (Ferreira, 2008), and an institution-based view would suggest that shared ownership helps gain legitimacy in an "exchange ownership for legitimacy" (Meyer et al., 2014). We have advanced that in the context of Latin America, a managerial mindset of risk aversion, mistrust of foreigners, need to control, avoid conflicts with partners, and overconfidence of dealing with complex and in-flux institutional environments sustain the argument for a preference of full ownership. Moreover, LAFs searching to acquire strategic assets will be more aggressive in their CBAs in more advanced countries with knowledge protecting institutions, and hence more likely to prefer larger ownership stakes to have control over the capabilities of the targets.

We then extended the institution-based view focusing on the role played by the government. We treated government support as an institutional factor endogenous to firms, as opposed to studies that treated the government as an institution exogenous to firms (e.g., Hillman & Hitt, 1999), and hypothesized that governments have both a direct and indirect impact on the ownership acquired by multilatinas, further influencing their behavior in regards to both institutional distance and knowledge access. However, the interpretation of our findings on the effects of government support calls for the specifics of the Latin American, and specifically Brazilian, institutional business environment. We found a propensity for LAFs to prefer full acquisitions when benefiting from the support of the government through both stock participation and political ties. Moreover, for cultural and historical reasons, Brazilian managers are conservative and risk-averse and hence, when having the government as a shareholder they tend to choose full CBAs reinforcing the risk aversion argument and extending it to the public officials. Despite some pro-market progresses of LACs, the local institutional environments are characterized by protectionist policies, poorly developed capital markets, weak technological development and economic instability, that lead to a situation in which local firms face formidable challenges in their internationalization process. Governmental back-up reduces total uncertainty (in relation to changes in the local environment) and shares the risks of the foreign investment. Holding governmental ties helps in accessing information, lobbying policymaking, reducing risks and perhaps gaining some advantage with host country governments. Finally, our findings (Table 3) clearly highlight that financing is a major driver of government support, leading LAFs to deploy higher ownership modes in an effort to augment business-related capabilities of multilatinas, and possibly of the country knowledge base.

Our study has a further contribution to the literature on the impact of the institutional differences on EMNCs' cross-border acquisitions since only a handful of studies have looked into CBAs made by EMNCs using institutional lenses (e.g., Buckley et al., 2014; Contractor et al., 2014; Deng & Yang, 2015). The use of a LAC as a research setting can motivate scholars in the region, while understanding the economic and institutional reforms implemented in several LACs (Cuervo-Cazurra & Dau, 2009; Khoury et al., 2015) is likely to shed light on the impact of the home country institutions, including the government. By disaggregating government support in three dimensions – financing, shareholder, and influence through political ties – we disentangle an otherwise far more complex variable.

5.1. Managerial relevance

Our study has important implications for Latin American managers. This study shows the need to consider how the institutional pressures in the host country are likely to vary for firms that have different forms of government support. While the benefits of government support in the home country are clear, less clear are the added pressures to gain host legitimacy when the government intervenes. Moreover, the political objectives of the government need to be accounted for in the foreign operations. Government funding may help expand internationally and acquire higher ownership thus leading to more risk taking actions, but it is also relevant for managers to understand how government objectives may be complementary to those of the firm. While government support may permit leapfrogging the usual gradualism in the internationalization process, managers need to envisage whether the resources and capabilities suffice for a faster paced internationalization.

For managers it is also interesting to understand how incorporating political actors (the government or governmental agencies) may have advantages, and how it changes the strategies pursued. Moreover, the different mechanisms through which governments support firms also have different effects and it is important that managers nurture those forms of support that help overcome weaknesses (Wang et al., 2012) such as lack of resources or of political connections in the host country. To some extent, this means it is necessary to adjust firms' strategies to the mechanism of government support sought after.

Firms have an incentive to be politically connected to the government and seek all forms of government support to secure low interest loans, subsidies and hedge against adverse political decisions. However, it is important to account for the risk of political intervention in the managerial decisions and strategies. For instance, when the Brazilian government was called upon to bail out the meatpacker JBS after a program of international expansion that left the firm highly indebted, the BNDES reconverted its loans into shares and became a relevant shareholder in future decision making. In other instances, receiving loans and subsidies requires an exchange of favors with politicians, whose consequences may be unforeseen. The fact is that government, especially as shareholder, may act by driving the firms toward fulfilling their own political and economic objectives.

5.2. Limitations and future research

This study has a number of limitations. First, there are limitations pertaining to the sample and nature of the data. The sample was restricted to acquirers from Brazil. While this was a scope decision, the institutional characteristics of Brazil and the manner in which the government intervenes are likely to differ from other LACs, notably in how government ideology and capabilities come into play in firms' strategies. Additional studies on other LACs could provide a broader picture on the home countries' institutions and on the multilatinas' CBAs strategies. Other empirical limitations arise from SDC Platinum that has missing information regarding non-US deals. Moreover, using secondary data is limiting in measuring such aspects as managers' perceptions of institutional distance, the actual knowledge component sought after, and the realized learning. It is also noteworthy that albeit we were able to identify whether the Brazilian government had financed a given CBA, there is a profound lack of transparency regarding the transactions and values involved. Finally, while we have considered controlling for other measures of home-host institutional differences, these measures tend to be highly correlated. In addition to solving these issues, future research may assess how institutional changes, for instance those referring to how government intervention has shifted over the past decades, have an impact on the ownership strategies by multilatinas.

Second, firms' strategic motivations play a role in their expansion strategies. For instance, market seeking or strategic asset seeking motivations may lead firms to different ownership choices, locations and target firms. We lacked measurements regarding firms' strategic motives to internationalize as noted and primary data better captures these dimensions of firms' strategies. Additionally, LACs have different government policies and the manner in which multilatinas are related to governments is likely to vary across LACs. Hence, future research may explore other mechanisms of government support to their firms. To explore these avenues, comparative research examining the role of governments across a set of LACs may clarify the multiple manners in which governments influence firms' international strategies, both directly and under an array of specific institutional conditions and heterogeneities. These studies could provide insights on firms' strategies given the different forms of support received.

To conclude, proposing the need to examine the role of government as a core institution in an institution-based view of the internationalization of LAFs, we provide new insights to the literature. This study addresses the calls for a focus on the context of institutions (Cuervo-Cazurra, 2008; Hoskisson et al., 2013; Peng et al., 2008). Notwithstanding, there remain opportunities to understand how LAFs' unique characteristics and their home country institutional conditions drive internationalization. This is fertile ground for research on such aspects as the idiosyncrasies characterizing LAFs, their knowledge strategies, entry modes, and institutions.

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