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The Role of Country Alliances in Reducing the Transaction Costs of Internationalisation: Evidence from Indian Multinational Enterprises

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Abstract

This paper analyses the role of home-host country alliances in reducing transaction costs in the internationalisation process. We test hypotheses about the role of country-level alliances and firm internationalisation with comprehensive longitudinal multi-industry data on 623 acquisitions made by Indian multinational enterprises (MNEs) between 2000 and 2007 on a panel of 65 host countries. The results show that country alliances reduce the transaction costs arising from the distance between home-host countries thereby positively influencing the internationalisation of Indian MNEs. However, the extent of that influence depends upon the nature of the alliance. Our findings have significant implications for public policy and theory.

1. INTRODUCTION

We address call for papers for this special issue on 'Heterodox Perspectives on the Interaction between Business Organisation and Public Policy' (Pitelis & Runde, 2015) by exploring the interaction between public policy and business organisation. Our paper advances the view that alliances between home and host countries enhance a firm's internationalisation. Central to its argument is the belief that country alliances affect transaction costs, i.e. costs incurred by the firm in being involved in a given market (Coase, 1937), for firms undertaking business between any two member states. It draws upon the field of international relations which offers valuable insights into the nature and purpose of country alliances as well as the extant literature in international business that provides valuable insights into the influence of cross-border firm alliances on the firm's internationalisation, but does not address the question of how government policy towards alliances at the country level affects business organisations.

Theories of international relations (e.g. Burchill et al., 2013; Gilpin & Gilpin, 1987; Moravcsik, 1997; Walt, 1987; Waltz, 1979) suggest that country alliances are informal institutional cooperation arrangements among member countries formed for political, social and economic reasons. The key examples, within the context of our empirical settings on Indian firms' internationalisation, include the Commonwealth[i], the G-20[ii] and the G-15[iii]. These country alliances aim to promote political, social and economic development among member countries (Bennett, Chappell, Reed, & Sriskandarajah, 2010; Callaghan, Ghate, Pickford, & Rathinam, 2014; Miskovic, Fischer-Tiné, & Boskovska, 2014). We use all three examples of alliances in our paper as they represent both north-south and south-south cooperation and provide a rich and comparative evaluation of country alliances on firm internationalisation (Buckley, Enderwick, Forsans, & Munjal, 2013).

For a systematic examination of the influence of country alliances on transaction costs of internationalisation, we use the CAGE – cultural, administrative, geographic, and economic – distance framework (Ghemawat, 2001). The CAGE framework is widely used in the international business literature because it encompasses both transaction costs and institutional theories. Cultural, geographic, and economic distance are sources of transaction costs arising during the course of internationalisation, e.g. the firm has to incur costs of transportation, tariffs and managing cultural differences in the process of internationalisation. The administrative distance, on the other hand, represents an institutional dimension, e.g. an alliance between home and host countries forms an institutional arrangement between them, which corresponds to administrative imminence.

The paper contributes to the international business literature that elucidates the ways by which transaction costs affect the firm's location choice and entry mode decisions (Anderson & Gatignon, 1986; Boeh & Beamish, 2012; Brouthers, 2002, 2013; Buckley, 2009; Buckley & Casson, 1976, 1985, 1998; Dunning, 1998; Dyer, 1997; Hennart, 1988; Hoffman, Munemo, & Watson, 2016; Kang & Jiang, 2012; Williamson, 1981) but pays insufficient attention to the factors that determine the level of transaction costs, and thereby, indirectly influence the firm's decision to undertake foreign direct investment (FDI). Internalisation theory (Buckley & Casson, 1976), which is regarded as the general theory of firm internationalisation (Buckley et al., 2007; Buckley & De Beule, 2006), assumes that transaction costs are given within the external environment in which the firm operates. These costs are invariant and the firm does not have control over them. They affect the firm's decision on how to internationalise operations in a foreign market. The firm compares transaction costs imposed by the external market with the agency costs within its hierarchy when making the decision to internationalise.

In contrast, we argue that transaction costs are not constant, they change, and thus their impact on firms varies. We show that transaction costs are moderated by institutional arrangements between home and host countries because the key aim of such arrangements is to promote mutual growth and development of both countries. Our key argument is that bridging of institutional and cultural distance among member countries, and opening up economies, create business opportunities and promote trade and investment among member countries. All these measures reduce various types of external transaction costs faced by the firm in a member host country and thereby facilitate the firm's internationalisation.

A further contribution of this paper lies in bringing together the international relations and international business fields. We specifically show the mechanism through which government policy forming collaborative institutional arrangements with other countries aids the international expansion plans of the firm (Pitelis & Runde, 2015). It illustrates that a combined analysis of institutional theory (e.g. North, 1990; Scott, 1995) and transaction costs based theories (e.g. Buckley & Casson, 1976; Coase, 1937; Williamson, 1975, 1981) provides a more comprehensive framework for analysing the internationalisation decisions of the firm.

Additionally, our paper addresses the need to understand the influence of institutions on FDI by firms, particularly those originating from emerging economies as institutions are considered particularly relevant in the context of such economies (Hoskisson, Wright, Filatotchev, & Peng, 2013; Peng, Wang, & Jiang, 2008). However, it argues that studying institutions alone does not provide an adequate understanding of the firm's decision to undertake FDI. Transaction costs need to be integrated with institutions because institutions and transaction costs together provide layers of interlinked factors that affect firms' FDI decision.

Empirically, the paper contributes to studies on the determinants of Indian outward foreign direct investment via cross border acquisitions. There are comparatively few studies (see for example, Balasubramanyam & Forsans, 2010; Buckley, Forsans, & Munjal, 2012; Chittoor, Aulakh, & Ray, 2015; Kumar, 2007; Pradhan, 2004) that have attempted to explore this phenomenon. This is particularly surprising given that the Indian economy stands out amongst other emerging economies, it has recently overtaken China in terms of growth rates (Lagarde, 2015; Madsen, Saxena, & Ang, 2010).

2. THEORY AND HYPOTHESIS DEVELOPMENT

Early thinking on the formation of country alliances can be traced in the field of international relations. Scholars (e.g. Waltz, 1979), building from a security perspective, proposed a theory based on the balance of power, that is countries will pursue alliances to counter any nation, or group of nations, seeking to achieve a dominant position. Thus, country alliances are prompted by power imbalances. For our purposes, this theory is of limited value as it emphasises military power and security concerns and has little to say about commercial activities. In a refinement of this approach, Walt (1987) highlights a view that alliances are more an attempt to balance threats, as opposed to power imbalances. Walt also offers a useful extension, which is relevant to our ideas, in recognising that threats, and responses, may be concerned with economic wellbeing, and not simply military security. He also recognises that threats are perceptual, not necessarily objective. In a further development, Schweller (1994) extends these ideas to see country alliances as not just a response to threats, but also a means of exploiting opportunities. In such a situation, the purpose of the alliance is to combine the capabilities of member states in ways that facilitate their mutual interests.

In the age of alliance capitalism (Dunning, 1995) facilitation of mutual interests has become a key principle, where home-host country alliances provide a platform and a structure in the form of supra-national institutions that bring together member states supporting their social, political, and economic systems. In the context of international businesses, such institutions affect the firm's internationalisation path. Scholars argue that institutions within home and host countries determine the firm's evolution (Cantwell, Dunning, & Lundan, 2010), conduct and behaviour, "determining what arrows a firm has in its quiver" that help in formulating and implementing its strategy (Ingram & Silverman, 2002, p. 20).

A review of the evolving literature on institutions suggests that institutions affect the firm's location choice (Bevan, Estrin, & Meyer, 2004; Buckley, Cross, & Horn, 2012; Dunning & Lundan, 2008; Henisz & Anand, 2008; Mudambi & Navarra, 2002), its entry mode decisions (Arregle, Miller, Hitt, & Beamish, 2013; Bevan, Estrin, & Meyer, 2004; Meyer, 2001; Meyer, Estrin, Bhaumik, & Peng, 2009), its performance (Brouthers, 2002, 2013; Chan, Makin, & Isobe, 2010), its decisions of diversification and forward-backward integration (Khanna & Palepu, 1999, 2010; Ricart, Enright, Ghemawat, Hart, & Khanna, 2004).

Although, the institutional perspective explains a large part of the firm's internationalisation decisions, it is seen as a non-efficiency perspective (Xu & Shenkar, 2002). Institutions provide a complex set of conditions that often impinge upon profit maximising objectives and the firm has to legitimise its conduct within those given conditions (Kostova & Zaheer, 1999; Pant & Ramachandran, 2012). We argue that this void in the ability of institutional theory to explain the firm's internationalisation decisions can be addressed by the interaction of institutions with transaction cost economics, where

institutions explain the given conditions that the firm operates within, and transaction costs analysis focuses on the goal of profit maximisation.

Scholars use transaction cost economics, from an efficiency perspective, to explain entry mode strategies (Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986), location choice (Buckley & Strange, 2015; Contractor, Kumar, Kundu, & Pedersen, 2010), diversification and performance (Gaur & Kumar, 2009; Kirca et al., 2011) and forward-backward integration (Buckley, 2011; Buckley & Casson, 2009) of the firm. Transaction costs arise during the course of economic exchanges made by the firm in an imperfect market. In the context of internationalisation of the firm, transaction costs increase due to the existence of various types of differences – cultural, administrative, geographic and economic – between home and host country (Ghemawat, 2001). Scholars argue that these differences also increase the liabilities faced by the firm, e.g. geographic distance leads to liabilities of distance (Boeh & Beamish, 2012). The firm has to spend resources to coordinate activities in geographically, culturally and institutionally distant economic systems in both home and host countries (Brouthers, 2002, 2013) in order to maximise the advantages offered by different locations (Buckley, 2009). Often the firm has to sacrifice some control or ownership of activities to minimise transaction costs. For instance, outsourcing minimises certain transaction costs by placing the activities outside the boundaries of the firm (Manning, Larsen, & Bharati, 2015; Mudambi & Venzin, 2010), while joint ventures enable the firm to share transaction costs with other partners (Beamish & Lupton, 2009; Chen & Hennart, 2004).

Thus, institution and transaction cost based theories deal with a similar set of questions but from two different perspectives – non-efficiency and efficiency. Institutions provide distinctive explanations for the firm's internationalisation strategies that are not amenable to economic theories, and vice versa (Hoffman, Munemo, & Watson, 2016; Kang & Jiang,

2012). We thus argue that integrating transaction costs and institutions together provides a more comprehensive landscape that facilitates an inclusive investigation of the firm's internationalisation decisions. Institutions have a strong influence on transaction costs. While institutions can reduce transaction costs, e.g. by providing a stable structure to the economy and reducing environmental uncertainty (Meyer, 2001), the firm seeks to minimise the impact of transaction costs of internationalisation by locating activities in an institutional environment that is more familiar and less uncertain (Hoskisson, Eden, Lau, & Wright, 2000; Meyer & Thein, 2014).

Based on the above discussion on the interaction between institutions, transaction costs and the firm's internationalisation, we develop hypotheses that argue how institutional arrangements between home-host country in the form of social, political and economic alliances reduce environmental uncertainties and thereby transaction costs arising from institutional differences between home and host countries. Figure 1 represents our conceptual model. It shows cultural distance, geographic distance and economic distance as the sources of transaction costs and home-host country alliances as moderators.

****Figure 1 here****

2.1 Cultural distance and country alliances

The cultural distance between home and host countries has been seen as an important consideration in the firm's decision to internationalise, in particular affecting the firm's choice of foreign market entry mode (Kogut & Singh, 1988; Ronen & Shenkar, 2013). Greater cultural distance deters FDI by increasing risk and uncertainty in a foreign market, while cultural affinity reduces transaction costs and facilitates the FDI decisions of the firm (Benito & Gripsrud, 1992). The Uppsala model (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975) highlighted the effects of cultural distance on firm strategy.

The model suggests that the firm prefers to internationalise into culturally close countries, at least in the initial stages of internationalisation. Further, the firm internationalises with low commitment modes into countries where the cultural distance is high. The model attributes the cause of such behaviour to the lack of cultural understanding that increases market risk.

We argue that cultural understanding about the host market can also be gained through home-host country alliances. Theories drawing from the field of international relations suggest a number of ways in which country alliances might affect cultural distance. First, at the very least, such groupings increase contact and awareness among members. Annual meetings of Heads of States as well as government agencies raise the opportunities for dialogue, providing powerful opportunities for interaction. Second, country alliances are 'self-selecting', that is they are likely to involve states with shared interests or ideology (Walt, 1987). If this is the case then their formation results in a reduction of 'psychic distance' between any two member states, when compared with a cross-border transaction with a non-member state. Third, the shared purpose of country alliances may facilitate learning between member countries; learning becomes more efficient when there is a clear focus and shared interest.

For example, cultural interactions within the Commonwealth, one of the groupings we examine here, are often strong. The Commonwealth promotes cultural exchange programs, such as trade fairs, sporting events, and exchange of students and artists among its member states. On the one hand, these programs allow the Commonwealth to achieve its aim of supporting economic and social development among member states; while on the other hand, it brings member countries psychologically closer to each other (Johanson & Wiedersheim-Paul, 1975).

The G-15 and G-20 grouping, even when pursuing economic purposes, still generate cultural intelligence. These alliances, with projects emphasising economic cooperation between member country SMEs, their Trade Point Network, cooperation in technology transfer and investment, and facilitation of banking and trade finance are examples of areas where the acquisition of knowledge, both experiential and non-experiential, about member states is likely to be more efficient. The G-20 has formed certain outreach groups, such as Civil20, Labour20, Think20, Women20 and Youth20, which aim to share understanding on issues affecting civil rights, youth, women and workers by opening intercultural dialogue among member states (G20IndiaSecretariate, 2016). In international business theorising terms, this might be equated to a compression of the learning stages proposed by the Uppsala model of internationalisation and could serve to both accelerate internationalisation, and to reduce perceived psychic distance.

Thus, institutional linkages in the form of alliances between home and host countries can positively influence FDI flows by reducing cultural distance. Therefore, we hypothesise that:

Hypothesis 1: The negative impact of cultural distance on outward FDI by Indian MNEs is moderated by an alliance between India and the host country.

2.2 Geographical distance and country alliances

Like cultural distance, geographic distance also affects the firm's FDI decision. Ceteris paribus, higher geographic distance reduces FDI because of higher transaction costs. Geographic distance leads to liabilities of distance (Boeh & Beamish, 2012). For example, greater geographic distance increases travel costs and is also associated with time differences, making it difficult to coordinate distantly located foreign operations

(Manning, Larsen, & Bharati, 2015). Thus, transaction costs arising from geographic distance have a significant impact on the FDI decisions of the firm (Brouthers, 2002).

Geographic distance is the physical distance between the home and host countries, which unlike cultural and economic distance, does not change over time. However, it is likely that the significance of geographic distance in the FDI decisions of the MNE could reduce when countries in an alliance make coordinated efforts to promote international business; for instance, by opening up new routes, ports, and modes of transportation or easing regulations that promote the movement of people. The influence of setting up the well known Silk Road and the opening up of borders for trade and investment is well documented in the public policy and economics literature (Lewis, 2010).

The G-20 and G-15 groupings aim to promotes international trade among member countries as a part of their wider agenda of economic development of member states (Carin, Heinbecker, Smith, & Thakur, 2010; Miskovic, Fischer-Tiné, & Boskovska, 2014). This has a direct impact on the development of logistics which should reduce the transaction costs associated with transportation. The mercantile interest behind the establishment of the Commonwealth has also facilitated establishment of infrastructure for movement of goods and services in former British colonies. The role of colonial ties in this regard is further note worthy. The extant literature on migration and diaspora (Cohen, 2008; Papastergiadis, 2013) suggests that the cultural closeness due to colonial ties influences people's travel and migration preferences and may significantly impact on the development of alternative routes of travel, again reducing transportation costs.

Moreover, country alliances also aim to promote institutional similarity amongst member states. The Commonwealth, The G-20 and the G-15 seek to promote convergence in policies among member countries (Bennett et al., 2010; Callaghan et al., 2014; Larby &

Hannam, 1993; Miskovic, Fischer-Tiné, & Boskovska, 2014). This can also reduce the significance of the perceived distance in FDI decisions made by the MNE.

Thus, it is hypothesised that:

Hypothesis 2: The negative impact of geographical distance on outward FDI by Indian MNEs is moderated by an alliance between India and the host country.

2.3 Economic distance and country alliances

Like cultural and geographic distance between home and host countries, economic distance also affects the firm's decision to internationalise. Economic distance refers to the degree of difference in the economic policies adopted by two countries. These differences are a major determinant of cross-border transaction costs. For example, the absence of trade pacts and limited openness of a host economy is associated with trade related tariffs.

Asiedu (2002) suggests that trade barriers that tend to discourage trade in a country are likely to be overcome by the firm through servicing the market locally by undertaking FDI. This is called tariff-jumping because the firm avoids trade related tariffs by setting up operations in the host country rather than servicing the market through exports, which attract tariffs. Thus, the MNE tends to undertake market seeking FDI in order to serve markets which are closed or restricted for trade.

Nevertheless, alliances between countries aim to reduce trade related tariffs and to enhance freer trade among countries in the alliance. In the case of the G-15, the Commonwealth and the G-20, annual meetings of Heads of States or Central Bankers opens the opportunities for dialogue and negotiations for enhancing trade and investment. At the same time the Federation of Chambers of Commerce, Industry and Services

(FCCIS) a private sector forum of the G-15 is instrumental in coordinating and maximising opportunities for business development between G-15 members. The B20, a network of business associations, working under the aegis of the G-20 aims to maintain a dialogue, for stable, sustainable and equitable economic growth, between the private business community, G-20 member countries and the relevant international institutions.

All the above measures potentially lower the transaction costs of doing business by creating an ambience of economic cooperation, financial stability, improved negotiations, and increased transparency. Therefore, it can be argued that economic-political alliances between countries serve to reduce trade related transaction costs. We thus hypothesise that:

Hypothesis 3: The trade openness brought about by an alliance between India and the host country will have a negative effect on outward FDI by Indian MNEs.

3. RESEARCH METHODS

3.1 Dependent Variable and Sample

We test the above hypotheses using a dataset on foreign acquisition by Indian MNEs. There are several reasons for our choice which are as follows:

i. Indian MNEs are growing rapidly in the world economy and their evolution has attracted significant interest among academics and policy makers;

ii. India's role in supranational organisations, such as the G-20 and World Trade Organisation is growing (Mathews, 2009). India, as well as other emerging economies, have begun to 'flex their muscles' (Taylor, 2009) in the global economic order and this is likely to affect the internationalisation of Indian MNEs;

iii. Foreign acquisition is the most popular internationalisation strategy among Indian multinationals. Much of the Indian outward FDI occurs through acquisitions (Athukorala, 2009; Buckley, Munjal, Enderwick, & Forsans, 2016a);

iv. Indian MNEs have made acquisitions in many countries around the world. Our dataset on Indian acquisitions, collected from Thomson One Banker, suggests that for the period January 2000 to December 2007, Indian MNEs made 623 acquisitions in 65 countries, 60 percent of these host countries were outside Asia. Thus, most of the acquisitions undertaken by Indian MNEs are targeted at geographically and culturally distant countries. This suggests that our database has sufficient variation;

v. Many Indian MNEs such as Bharti Airtel, Tata Steels, and Suzlon have become leading firms in their respective industries by undertaking acquisitions of foreign firms (Airtel, 2012; Buckley, Munjal, Enderwick, & Forsans, 2016b, c; MIT, 2012; Suzlon, 2012; UNCTAD, 2007).

Foreign acquisition is thus our dependent variable. We measured acquisitions in two ways: value of acquisitions and number of acquisitions, which gives us two proxies for representing the dependent variable. We matched the acquisition (both numbers and value) by year by host countries to create our data set. We selected the end of 2007 as a cut-off date to prevent the analysis being affected by the Global Financial Crisis which began shortly afterwards.

3.2 Independent Variables, Control Variables and Models

As discussed above in our propositions, we have two types of independent variables: a) country alliance; and b) transaction costs. For measurement of the country alliance variable we used both north-south and south-south types of country alliances where India

is an active member. North-south alliances represent linkages between developed and developing economies, while south-south alliances represent linkages between developing countries only. As discussed earlier, we find three alliances: a) the G-20; b) the Commonwealth; and c) the G-15 which meet our requirements.

We operationalise country alliance by taking the host country's membership of international economic-political alliances. This approach follows Medvedev (2012). Thus, Commonwealth (CW) takes a value equal to 1 if host country i is a member of the Commonwealth, 0 otherwise. Similarly, the G-20 takes a value equal to 1 for country i if country i is a member of the G20, 0 otherwise and the G-15 takes a value equal to 1 for country i if country i is member of the G15, 0 otherwise. Data on the membership of G-20, G-15 and the Commonwealth is available from their respective websites.

Our other main variable is transaction costs, which is represented by cultural, geographic and economic distance between home and host countries. We conceptualised economic distance (OPEN) by using the trade openness of the host country; it is measured by taking the ratio of foreign trade to gross domestic product (GDP). The geographic distance (GD) is measured by the distance between the capitals of the home and host countries, and the cultural distance (CD) is measured using Kogut and Singh's (1988) cultural distance index.

Data on trade openness is obtained from the World Bank development indicators. Data on geographic distance is sourced from geobytes.com and data for cultural distance is obtained from geert-hofstede.com. All these sources are standard and have been extensively used in the literature (for example Buckley et al., 2007, 2012, 2013).

Cultural distance is measured using the modified version of Kogut and Singh's cultural distance index which has been used in various studies (e.g., Barkema, Bell, & Pennings,

1996; Benito & Gripsrud, 1992; Kale & Barnes, 1992). The Kogut and Singh (1988) composite index on cultural distance is based on a formula which takes the difference between the index scores of the different countries relative to the USA. To use the index with reference to India we took the difference between various host countries relative to India. Thus, algebraically:

$$\mathbf{CD}_j = \sum_{I=1}^{4} \{(\mathbf{I}_{ij} - \mathbf{I}_{id})^2 / \mathbf{V}_i\} / 4$$

Where, CD_j = cultural distance of ith country from India

I_{ij} = index of the ith cultural dimension and the jth country

I_{id} = index of the ith cultural dimension of the India (d stands for India)

V_i = is the variance of the index of the ith cultural dimension

We controlled for several host country-specific factors which encourage the foreign expansion of a firm, such as host country market size (MARKET) (measured by the GDP of the host economy), natural resource endowment (RESOURCE) (measured by the ratio of exports of ore and metals to merchandise exports), strategic assets and knowledge endowment of host economies (KNOWLEDGE) (measured by the number of patent applications), political risk (POLRISK) (measured by the political risk index). These are standard control variables used in the literature.

We also controlled for home country-specific factors which encourage the foreign expansion of the firm, such as the availability of capital at home (CAPITAL) (measured by the domestic capital market index), foreign exchange rate (FOREX) (measured by exchange rate of the INR w.r.t. the USD) and use of the English language (LANG). These factors significantly affect the internationalisation of Indian MNEs through acquisitions

(Buckley, Forsans, & Munjal, 2012). We used volume of foreign trade (FTRADE) (measured in the US dollars) and trade agreement (TAGRE) (measured by a dummy variable which takes a value of 1, if an agreement exist between home and host countries, and 0 otherwise) as additional control variables because these variable represents trade links between home and host countries and can affect FDI decisions of the firm.

Data for host country market size, natural resource endowment, foreign exchange rate and openness of the host country are sourced from the World Bank development indicators. Data on strategic assets and knowledge endowment are obtained from the World Intellectual Property Organisation. Data on political risk index is obtained from the International Country Risk Guide (ICRG, 2010). Data on domestic capital market index are obtained from the website of the Bombay Stock Exchange of India (www.bse.com), which is the most famous and one of the largest stock exchange in India.

We use a dummy variable for English language (LANG) (measured by a dummy variable which takes the value of 1 if English is the host country's official or primary national language or national lingua franca, and 0 otherwise). Data on host country language is obtained from the web site of the Central Intelligence Agency.

Since our dependent variable, foreign acquisitions, aggregated by host country by year, is measured in two ways that is number and value of acquisitions, we used two dependent variables for making our regression equations. Our models are expressed as follow:

$Ln(MAValue_{it}) = a + b_1 (G\text{-}15) + b_2 (G\text{-}20) + b_3 (CW) + b_4 \ln(OPEN_{it}) + b_5 \ln(CD_{ij}) + b_6 \ln(GD_{ij}) + b_7 \ln(FTRADE_{ijt}) + b_8 \ln(G\text{-}15*OPEN) + b_9 \ln(G\text{-}20*OPEN) + b_{10} \ln(CW*OPEN) + b_{11} \ln(G\text{-}15*CD) + b_{12} \ln(G\text{-}20*CD) + b_{13} \ln(CW*CD) + b_{14} \ln(G\text{-}15*GD) + b_{15} \ln(G\text{-}20*GD) + b_{16} \ln(CW*GD) + b_{17} Cntrl. + u_{it}$

$$Ln(MANo_{it}) \ = \ a + b_1 (G\text{-}15) + b_2 (G\text{-}20) + \ b_3 (CW) + b_4 \ln(OPEN_{it}) + b_5 \ln(CD_{ij}) + b_6 \ln(GD_{ij}) +$$

$$b_7 \ln(FTRADE_{ijt}) + \ b_8 \ln(G\text{-}15*OPEN) + b_9 \ln(G\text{-}20*OPEN) + b_{10} \ln(CW*OPEN) + \ b_{11} \ln(G\text{-}15*CD) + b_{12} \ln(G\text{-}20*CD) + \ b_{13} \ln(CW*CD) + \ b_{14} \ \ln(G\text{-}15*GD) + b_{15} \ln(G\text{-}20*GD) + b_{16}$$

$$\ln(CW*GD) + b_{17} \, Cntrl. + u_{it}$$

where i stands for host country; j stands for home country; and t for time. Thus, $MAValue_{it}$ refers to the value of an acquisition transaction in the ith country at time t, and $MANo_{it}$ refers to the number of acquisitions in the ith country at time t, u_{ijt} refers to the random stochastic error term.

As we expect a non-linear relationship among the variables, we transformed both the dependent and independent variables, excluding dummy variables, into natural logarithms and derived a log-log linear model. A log-log function enables the transformation of non-linear relationships between our dependent and independent variables into linear ones and measures FDI elasticity with respect to our set of explanatory variables (Greene, 2003).

We used pooled ordinary least square (POLS) regression for estimations. Pooled estimation is preferred over panel data estimation because acquisition is a random variable - it does not take place every year. Our dataset reveals that Indian firms have not made acquisitions each year in every host country. Thus, the panel data which accounts for both time series along different groups are not appropriate in our data settings. Further, results obtained using POLS estimation are consistent and more efficient than random effects estimation results[iv].

4. RESULTS AND DISCUSSION

Table 1 provides descriptive statistics and the results are presented in tables 2 and 3. Our results are robust because they are consistent when acquisitions are measured in value and

number, and do not suffer from multicollinearity. Our results suggest that hypotheses 1 and 3 are supported completely, while hypothesis 2 is partly supported.

**** Tables 1, 2 and 3 here****

Results in tables 2 and 3 support our basic proposition that home-host country alliances positively influence the acquisitions undertaken by Indian MNEs by reducing transaction costs. However, the extent to which these country-level alliances affect the firm's internationalisation depends upon the nature of the alliances. We discuss these results in the following sections.

4.1 Cultural distance and country alliances

Cultural distance, calculated with respect to India, is significant with the expected negative sign. A higher level of cultural distance reduces FDI because the MNE has to incur higher transaction costs to manage the cultural distance. Thus, Indian MNEs seek to invest in countries which have lower cultural distance from India.

Results, in models 2, 3 and 4, show that the home-host country alliance moderates the negative effect of cultural distance (Hypothesis 1) on outward FDI undertaken by Indian MNEs through acquisition. The results show that cultural distance loses its significance when it interacts with country alliances. This indicates that institutional links between India and host countries reduce the impact of cultural distance on foreign acquisitions undertaken by Indian MNEs.

The economic, political and social cooperation among member states in the Commonwealth, the G-20 and the G-15 alliances reduce cultural distance in many ways. The prominent example is the Commonwealth, where the interactions among countries are much deeper and historical, involving in a number of cases, institutional transplantation.

During its colonial period, Britain took elements of its political, legal, education and economic systems to a number of countries, even those characterised by a very different ethnic composition. Thus, the Commonwealth shares a somewhat common history, the English language and the common institutional framework derived from the colonial past, which reduces the psychological distance among these countries. Moreover, the Commonwealth organises cultural exchange programs, sporting events, and commercial fairs amongst member countries. Such events further raise awareness about a host country's cultural and institutional environment giving local business an opportunity to learn and adapt to the customs of host country. Formation of the G-15 is based on shared ideology of south-south cooperation, which brings member countries psychologically and institutionally together. The outreach focus groups of the G-20, particularly the Civil20, Women20 and the Youth20 directly aim to bridge the psychological gap among member states by opening dialogue on issues relating to youth, women and civil society at large. Ideas and opinions are shared in their respective meetings. Conferences, seminars and symposiums are organised so that the youth, women and civil society in general can come together and form partnerships and friendships (G20IndiaSecretariate, 2016).

Notably, all three alliances – the Commonwealth, the G-20 and the G-15 – aim to facilitate international negotiations between member countries, and support economic and social development programs all of which have implications for the acquisition for knowledge about member states. These interactions essentially bring member states psychologically close, minimising the knowledge gaps and helping to build cultural intelligence about member states. Reducing cultural distance, with given institutional arrangements between home and host countries, creates an opportunity for MNEs to increase internationalisation in these countries.

Our results also show that in both types of institutional linkages – south-south and north-south – cultural distance loses its significance when it interacts with country alliances. This suggests that the influence of institutional linkages on cultural distance is not associated with the economic development of the host country, which is a logical and an important finding.

4.2 Geographic distance and country alliances

Geographic distance, generally an important factor in the FDI decision of the firm, is found to be insignificant. The global spread of Indian investment – much of it is prompted by strategic asset seeking, such as internationally recognised brands and advanced sophisticated technology – suggests that geographic distance may be less of a concern for Indian firms and more a result of bitter rivalries between countries in the South-Asian region (FCO, 2007). This result is consistent with earlier studies on India (for example, Buckley, Forsans, & Munjal, 2012). India's rivalry with China and Pakistan has affected the mutual trust among these countries and restricted India's trade and investment relationship with them (FCO, 2007). Thus, despite the fact that these countries are geographically close, foreign investment flows between them are low. Instead, Indian MNEs look towards more distant western countries when undertaking FDI.

The interaction between country alliance and geographic distance (Hypothesis 2) is also not significant. In models 2 and 3, the expected effect of institutional linkage on reducing the negative effect of geographic distance seems to have been washed out due to the insignificance of the geographic distance itself. The hypothesis should be re-examined on another sample because the benefits resulting from country alliances are likely to reduce the impact on transaction costs arising from geographic distance. The impact of country alliance on geographic distance should be the same as it is for cultural distance.

Scholars (Bennett et al., 2010; Callaghan et al., 2014; Carin et al., 2010) have reported the influence of the G-20, the G-15 and the Commonwealth in promoting trade and investment among member countries. Our argument is that the increase in trade and investment volume is positively associated with reduced transaction costs. The geographic distance related transaction costs may reduce due to: a) scale economies in cost of transportation; b) development of infrastructure, such as ports, opening new routes and modes of transportation; and c) development of logistic service providers, such as insurance and forwarding agents, all of which can be facilitated with country alliances.

Interestingly, in model 4, the interaction effect of south-south alliance with geographic distance is significant, with a negative sign. This indicates that geographic distance is negatively related to the FDI undertaken by Indian MNEs when the FDI occurs in developing countries. This contrast in model 4 further suggests that geographic distance does not matter to Indian MNEs when acquisitions are made to acquire strategic assets in developed countries (as explained above), which is probably due to lack of choice. However, when acquisitions are targeted at developing countries, geographic distance works as per the theoretical expectation. This finding indicates that the G-15 countries may have become less important to Indian MNEs perhaps due to the fact that over the last two decades the Indian economy has been become more service oriented and Indian MNEs are actively looking north for acquisitions.

4.3 Economic distance and country alliances

Economic distance, measured in terms of trade openness of host countries, is significant with the expected negative sign. Thus, Indian MNEs undertake FDI if opportunities for trade are restricted by the host economy. This supports Asiedu's (2002) tariff-jumping proposition that countries less open for trade are serviced by market seeking FDI.

The effect of country alliances on trade openness (Hypothesis 3) is according to expectations. Results in all three models (2, 3 and 4) indicate that institutional linkages make the impact of trade restrictions insignificant. This suggests that country alliances bring institutional convergence among member states by reducing trade and investment barriers, which affects the internationalisation strategies of MNEs reducing incentives for tariff-jumping.

When countries are part of an alliance, it is likely that they will promote trade among themselves by reducing trade related transaction costs, such as tariffs. When trade openness is restricted, the firm has little choice but to undertake FDI to serve the market. However, lowering trade related tariffs due to economic-political links between the home and host countries gives a firm the option of serving the market through trade as well as by undertaking FDI.

It is also worth noting that the Commonwealth (and the preceding Empire) were based on mercantile interests. Opportunities to access resources and markets for Britain were also relevant to the subsequent formation and evolution of the Commonwealth. Economic welfare motives also provide the basis for the formation of the G-15 and the G-20 which have a direct influence on the promotion of trade among member countries. Empirically, our results capture this supposition on the influence of country alliances.

Here it is worth acknowledging that although the country alliances studied here are not regional trade agreements, the effect of these country alliances on the firm's internationalisation is similar to that of a regional trade agreement. The effect of country alliances on the MNE is broad because the objectives of country alliances are quite comprehensive; promoting trade is only one of several aims. For example, the Commonwealth plays a crucial role in policy, political, social and developmental aspects

for member countries (Commonwealth, 2013). The G-20 seeks to coordinate economic policies between its member countries in order to achieve global economic stability, sustainable growth, reduce risk, prevent future financial crises, and create a strong financial architecture (G20, 2013). The G-15 aims for cooperation among the developing countries for mutual commercial and economic benefits, especially over the mid- to long-term (G15, 2013). With these broad economic objectives combined with policy coordination, it is reasonable to expect that these economic-political alliances between home and host countries may have more impact on the MNE's internationalisation than simple regional trade agreements, and this should be an agenda for future research.

5. CONCLUSION

Drawing on international relations theories, this paper analysed the influence of country alliances on the internationalisation of firms. It sheds some light on the ways in which government policies to form social, political and economic alliances with other countries affect business organisation. It brought together institutional theory and transaction cost economics and argued that country alliances reduce transaction costs faced by the firm in the internationalisation process.

Country alliances aim to promote economic and social development among member states. It achieves these goals through various social, economic and political processes, which simultaneously reduce differences among member states within the alliance. The study extended the strategic alliance literature and institutional theory by identifying a novel angle on country alliances. This study extended Medvedev's (2012) work on preferential trade agreements and FDI inflows by considering a broader concept of country-level alliances that influence the firm's direction of internationalisation towards countries which are part of an alliance with home economy.

The study has policy and managerial implications. It is apparent that managers should understand the structure of their home country alliances with potential host countries. Further, policy makers should consider the impact of country-level alliances on the internationalisation of their local firms. There is also the intriguing implication that a history of "involuntary alliance", such as through colonialism, may actually offer commercial advantages in the contemporary global economy. Nations such as Bermuda, Singapore and India may now experience lower cross-border transaction costs as a result of their infusion of British institutional systems (legal and administrative) as well as exposure to the English language.

The study has some limitations and offers directions for further research. First, the study investigates internationalisation of Indian MNEs. In this case, we could not find support for the geographical distance hypothesis and the moderation effect of alliances on geographical distance. The propositions should be tested on other country samples. Second, this is a quantitative study; further research through qualitative investigation is warranted as country alliances provide macro windows of investigation which integrate many complex arrangements. Qualitative investigation may offer complementary tools to explore other mechanisms through which country alliances reduce transaction costs and promote internationalisation. Finally, this paper has implications for internalisation theory. It argued that transaction costs are not invariant. Their influence on the firm may depend on the context in which the transaction costs themselves arise. Finally, the paper highlighted a novel variable (country alliance) that has traction in explaining internationalisation and, specifically, international transaction costs.

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Figure 1: Conceptual model
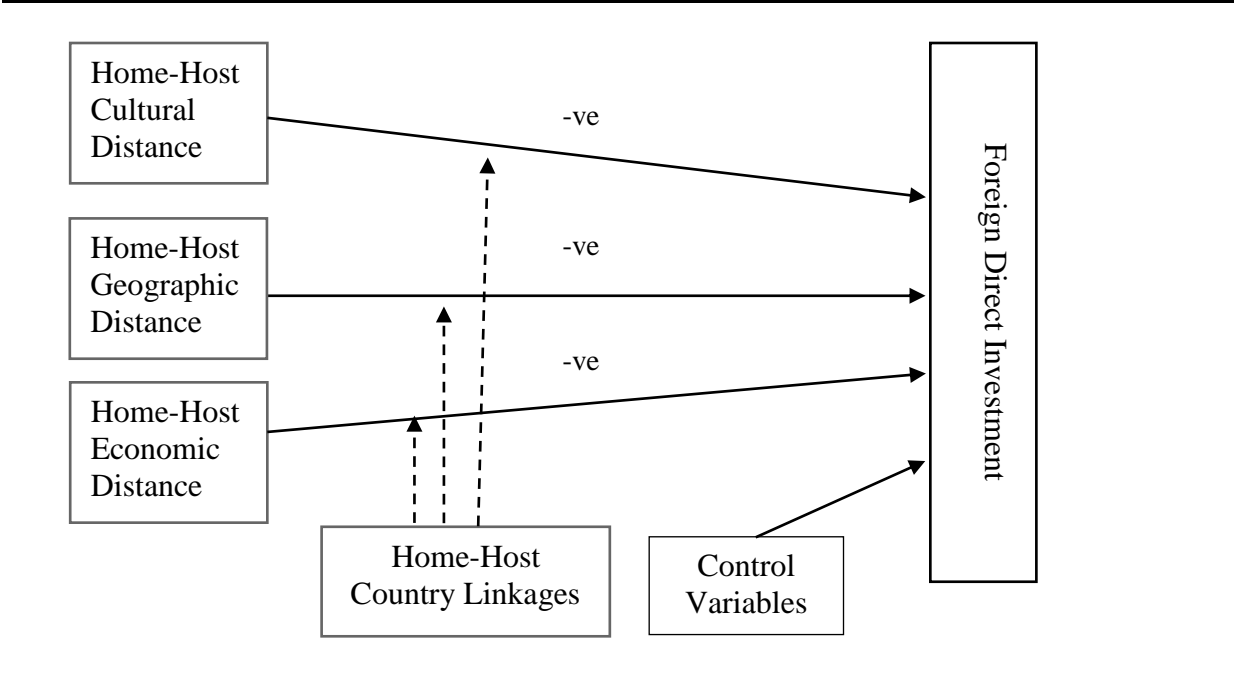
Notes: (1) Broken arrows (-----) represent moderation effects

(2) Solid arrows (——) represent direct effects

Table 1: Descriptive Statistics and Multicollinearity indices

Variable	Mean	Standard Deviation	VIF	1/VIF
POLRISK	6.932	1.181	2.82	0.355
TAGRE	0.286	0.452	2.03	0.493
GD	4129.100	2382.777	1.9	0.526
G15	0.186	0.389	1.88	0.532
FTRADE	2.15E+09	4.22E+09	1.78	0.562
KNOWLEDGE	11467.910	50314.110	1.77	0.565
FOREX	541.408	2177.648	1.72	0.581
MARKET	16098.050	12845.360	1.69	0.592
RESOURCE	6.141	12.024	1.63	0.613
G20	0.257	0.437	1.5	0.667
CD	1.568	0.839	1.47	0.680
CW	0.214	0.411	1.37	0.730
CAPITAL	8315.125	5620.240	1.34	0.746
OPEN	77.831	66.718	1.31	0.763
LANG	0.543	0.498	1.19	0.840

Source: Author's calculations

Table 2: Results (MANo)

	Model1	Model2 (G20X…)	Model3 (CWX…)	Model4 (G15X…)
Home Capital Market (CAPITAL)	3.65*** (0.392)	3.63*** (0.392)	3.629*** (0.393)	3.602*** (0.384)
Exchange Rate (FOREX)	-0.345*** (0.106)	-0.328*** (0.107)	-0.381*** (0.11)	-0.366*** (0.104)
Language (LANG)	1.16** (0.464)	1.056** (0.47)	1.18** (0.469)	1.015** (0.459)
Host Market Size (MARKET)	0.026 (0.093)	0.035 (0.094)	0.042 (0.094)	0.141 (0.096)
Host Natural Resources (RESOURCE)	-0.002 (0.126)	0.028 (0.13)	-0.014 (0.126)	-0.003 (0.124)
Host Knowledge Endowment (KNOWLEDGE)	0.174*** (0.04)	0.163*** (0.041)	0.171*** (0.041)	0.176*** (0.04)
Host Political Risk (POLRISK)	0.737** (0.304)	0.719** (0.314)	0.731** (0.305)	0.512* (0.303)
Home-host Foreign Trade (FTRADE)	0.058 (0.065)	0.057 (0.066)	0.059 (0.065)	0.074 (0.064)
Trade Agreement (TAGRE)	0.855 (0.701)	1.012 (0.735)	0.945 (0.714)	1.019 (0.701)
Host Trade Openness (OPEN)	-0.088* (0.054)	-0.094 (0.059)	-0.075 (0.061)	-0.071 (0.054)
Cultural Distance (CD)	-0.958*** (0.297)	-1.106*** (0.318)	-0.994*** (0.312)	-1.198*** (0.302)
Geographic Distance (GD)	-0.636 (0.505)	-0.411 (0.636)	-0.381 (0.55)	0.605 (0.567)
South-South Country Alliance (G15)	0.858 (0.727)	0.546 (0.786)	1.042 (0.744)	41.821*** (8.399)
North-South Country Alliance (CW)	1.358** (0.62)	2.924 (7.649)	1.435** (0.628)	0.451 (0.645)
North-South Country Alliance (G20)	1.83*** (0.592)	1.731*** (0.605)	2.979* (1.585)	1.874*** (0.588)
G20XCD		1.534 (1.035)		
G20XGD		-0.448 (0.942)		
G20XOPEN		0.056 (0.129)		
CWXCD			0.079 (0.781)	
CWXGD			0 (0)	
CWXOPEN			-0.051 (0.109)	

G15XCD				1.887
				(1.15)
G15XGD				-5.04***
				(1.05)
G15XOPEN				-0.229
				(0.194)
Constant	-40.251***	-41.498***	-42.215***	-49.036***
	(5.423)	(6.238)	(5.702)	(5.645)
Observations	520	520	520	520
R Square	34.03	37.04	34.24	34.33
Change in R Sq.	4.84	4.74	4.84	4.84
Root MSE	5.27	5.27	5.26	5.2
F (10,509)				
(11,508)				
(14,505)	17.33	14.77	14.94	15.89

Note: *** significant at 1 %; ** significant at 5%; *significant at 10%

Table 3: Results (MAValue)

	Model1	Model2 (G20X…)	Model3 (CWX…)	Model4 (G15X…)
Home Capital Market (CAPITAL)	3.994*** (0.426)	3.936*** (0.427)	3.975*** (0.427)	3.94*** (0.421)
Exchange Rate (FOREX)	-0.419*** (0.115)	-0.458*** (0.119)	-0.4*** (0.116)	-0.438*** (0.114)
Language (LANG)	1.536*** (0.506)	1.493*** (0.509)	1.406*** (0.511)	1.374*** (0.504)
Host Market Size (MARKET)	0.035 (0.101)	0.055 (0.102)	0.051 (0.102)	0.14 (0.105)
Host Natural Resources (RESOURCE)	0 (0.137)	-0.015 (0.137)	0.025 (0.142)	0.001 (0.136)
Host Knowledge Endowment (KNOWLEDGE)	0.182*** (0.044)	0.168*** (0.045)	0.17*** (0.045)	0.181*** (0.043)
Host Political Risk (POLRISK)	0.501 (0.331)	0.492 (0.331)	0.45 (0.341)	0.284 (0.332)
Home-host Foreign Trade (FTRADE)	0.098 (0.071)	0.104 (0.07)	0.101 (0.071)	0.116* (0.07)
Trade Agreement (TAGRE)	0.739 (0.764)	0.739 (0.775)	1.01 (0.8)	0.971 (0.769)
Host Trade Openness (OPEN)	-0.08 (0.059)	-0.023 (0.066)	-0.084 (0.064)	-0.06 (0.06)
Cultural Distance (CD)	-0.877*** (0.323)	-0.99*** (0.339)	-1.032*** (0.346)	-1.036*** (0.331)
Geographic Distance (GD)	0.055 (0.549)	0.31 (0.596)	0.173 (0.692)	1.219* (0.622)
South-South Country Alliance (G15)	0.561 (0.791)	0.808 (0.807)	0.28 (0.855)	36.427*** (9.212)
North-South Country Alliance (CW)	1.459** (0.675)	1.47** (0.682)	0.219 (8.322)	0.642 (0.707)
North-South Country Alliance (G20)	2.263*** (0.645)	3.172* (1.72)	2.1*** (0.658)	2.216*** (0.645)
G20XCD		0.608 (0.847)		
G20XGD		0(0)		
G20XOPEN		-0.203* (0.119)		
CWXCD			1.934* (1.126)	
CWXGD			-0.165 (1.025)	
CWXOPEN			0.058 (0.14)	

G15XCD				0.759
				(1.262)
G15XGD				-4.258***
				(1.152)
G15XOPEN				-0.282
				(0.213)
Constant	-48.43***	-50.104***	-48.692***	-56.665***
	(5.904)	(6.187)	(6.787)	(6.191)
Observations	520	520	520	520
R Square	34.29	34.68	34.93	36.35
Change in R Sq.	3.8	2.16	1.79	4.61
Root MSE	5.27	5.27	5.26	5.2
F (10,509)				
(11,508)				
(14,505)	17.53	16.38	14.49	14.55

Note: *** significant at 1 %; ** significant at 5%; *significant at 10%

Table 4: Correlation Matrix

MAValue	1.000																
MANo	0.930	1.000															
CAPITAL	0.378	0.376	1.000														
FOREX	-0.180	-0.174	-0.002	1.000													
LANG	0.080	0.074	0.000	0.245	1.000												
MARKET	0.175	0.172	0.062	-0.038	-0.066	1.000											
RESOURCES	0.121	0.103	0.056	0.056	-0.075	0.074	1.000										
KNOLWEDGE	0.182	0.176	-0.164	-0.213	-0.012	0.353	0.188	1.000									
POLRISK	0.200	0.207	0.006	-0.395	-0.112	0.350	0.293	0.502	1.000								
TAGRE	-0.044	-0.029	0.000	0.505	0.200	-0.337	0.066	-0.334	-0.311	1.000							
OPEN	-0.167	-0.176	-0.357	0.187	0.076	0.232	0.159	0.036	-0.059	0.009	1.000						
CD	-0.071	-0.088	0.000	-0.146	-0.144	0.172	0.098	0.352	0.367	-0.226	-0.034	1.000					
GD	0.024	-0.026	0.000	-0.032	-0.104	-0.085	0.369	0.149	0.236	-0.126	-0.044	0.220	1.000				
G15	-0.049	-0.062	0.000	0.238	-0.004	-0.179	0.214	-0.290	-0.371	0.267	0.100	-0.191	0.327	1.000			
CW	0.069	0.087	0.000	0.125	0.130	-0.184	0.091	-0.196	-0.072	0.440	-0.049	-0.247	-0.073	0.019	1.000		
G20	0.257	0.222	0.000	-0.096	-0.116	0.168	0.151	0.247	0.087	-0.010	-0.005	-0.124	0.226	0.055	0.011	1.000	
FTRADE	0.282	0.273	0.162	-0.004	0.034	0.172	0.385	0.173	0.255	0.084	-0.064	-0.085	-0.076	0.048	0.089	0.300	1.000

[i] Established in 1870, the Commonwealth is a voluntary association of 53 countries including the United Kingdom, and encompasses a population of two billion. The Commonwealth aims to promote democracy, facilitate international negotiations between member countries, and support economic and social development. The Commonwealth plays a crucial role in policy, political, social and developmental aspects for member countries.

[ii] Established in 1999, the G20 is a group of finance ministers and central bank governors for discussing key issues in the global economy and co-operating between the members from both industrialised and emerging economies for their growth and development. India and other emerging countries are given importance in the G20 because of their rising role in global development. The G20 has considerable influence and legitimacy in the global economy as it accounts for 90 per cent of global GNP and 80 per cent of the world trade. It is important to note that the G20 wants to help member countries to cope with the decline of international capital flows, especially in the present global financial crisis. Although the observation of data suggests that Indian MNEs are making acquisitions in industrialised and emerging economies, but we need to investigate any significance association of these acquisitions in the G20.

[iii] Established in 1989, the G15 is actually a group of 17 developing countries from Asia, Africa, and Latin America. The rationale for setting up the G15 was the feeling that there was considerable scope for cooperation among the developing countries for mutual commercial and economic benefits, especially over the medium and long-term. Thus, the very nature of the group is 'south-south cooperation' with India as one of the leading members.

[iv] Alternate results using Panel data Random effect are available upon request to authors.