Article:
Buckley, PJ orcid.org/0000-0002-0450-5589 and Munjal, S (2017) The role of local context in the cross-border acquisitions by emerging economy multinational enterprises. British Journal of Management, 28 (3). pp. 372-389. ISSN 1045-3172

https://doi.org/10.1111/1467-8551.12231

The role of local context in the cross-border acquisitions by emerging economy multinational enterprises

Peter J. Buckley[1] and Surender Munjal[2 *]

[1] Centre for International Business, Leeds University Business School,

University of Leeds, Leeds, LS2 9JT

Email: P.J.Buckley@lubs.leeds.ac.uk

[2] Director, James E. Lynch India and South Asia Business Centre, Leeds University

Business School, University of Leeds, Leeds, LS2 9JT

Email: S.Munjal@lubs.leeds.ac.uk

Tel: +44 113 343 8080

Fax: +44 113 343 6808

* Corresponding author

Peter J Buckley, OBE, FBA, is Professor of International Business and Founder Director of the Centre for International Business, University of Leeds (CIBUL). He is Cheung Kong Scholar Chair Professor in the University of International Business and Economics (UBIE), Beijing. He is also the Founding Director of the Business Confucius Institute at the University of Leeds. He was president of the Academy of International Business in 2002-2004.

Surender Munjal is Director of James E. Lynch India and South Asia Business Centre and Lecturer in International Business and Strategy, Centre for International Business, University of Leeds (CIBUL). He was nominated for the Best Dissertation Award in 2014 at both Academy of International Business and Academy of Management conferences.

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Abstract

This paper explores the role of local context in cross-border acquisitions by emerging economy multinational enterprises. It argues that the importance of local context has remained despite the increased global integration of the world economy. Hypotheses are tested using data on Indian acquisitions hosted in 70 countries over an eight year period. Results, which are consistent across number and value of cross border acquisitions, show that the local context in host countries offers contrasting benefits. Emerging economy multinational enterprises exploited these benefits by embedding in host countries through acquisitions. The acquisition strategy is conventional in the motives underpinning internationalisation but novel in its geographical clustering of host countries, and idiosyncratic due to the EMNE's ability to draw on home country embeddedness. The paper develops theoretical implications and extends the concept of embeddedness, treating it as a series of internalisation or quasi-internalisation decisions across a variety of local contexts by multinationals.

Keywords:

Multiple Embeddedness; Internalisation; Location; Multinational Enterprises (MNEs); India; Foreign Direct Investment (FDI); Acquisitions

Introduction

The evolving literature on globalisation versus regionalisation strategy has seemingly overlooked the role of local context, where the multinational enterprise (MNE) is embedded – that is, the degree to which the MNE's economic activities are integrated within the external local environment at home and in host countries (Dacin, Ventresca, & Beal, 1999; Nohria & Gulati, 1994). Ghobadian, Rugman and Tung (2014) in a special issue on 'the firm's strategy of globalisation and regionalisation', published in the British Journal of Management, suggest that although globalisation of market and economic forces aid in the international expansion of the MNE, local context is still an important determinant in shaping the MNE's internationalisation strategy (p.1). Scholars (e.g. Meyer, Mudambi, & Narula, 2011; Smith, Torres, Leong, Budhwar, Achoui, & Lebedeva, 2012) supporting this point of view advocate exploring the firm's internationalisation based on local context.

Embeddedness in any local context "demonstrates [how] market exchange is linked with, and defined by, larger and more complex social processes" (Munjal & Pereira, 2015 p. 819), and therefore covers two key dimensions – i) resource endowment; and ii) institutional framework – of local context, as explained by Meyer et al. (2011). Resources and institutions provide the opportunities and constraints of embeddedness. Host country resource endowment is usually treated as benefits or attractions associated with local embeddedness and the institutional framework is generally regarded as a set of constraints that provides "the set of fundamental political, social, and legal ground rules [establishing] the basis of production, exchange, and distribution" (Davis & North, 1971 p. 6).

The success of the MNE's internationalisation strategy often lies in managing and exploiting differences in local contexts wherein the MNE is embedded (Buckley, 2009; Ghemawat, 2001). Multiple-embeddedness – Headquarters (at home) and subsidiaries in different host countries – allows the MNE to benefit from the heterogeneity of locations in which it is embedded because 'neither the MNE nor the contexts are monotholic' (Meyer et al., 2011, p.239). Multiple-embeddedness gives temporary and sustainable competitive advantages and strategic agility, i.e. ability to deal with changes, to the MNE (Huang, Dyerson, Wu, & Harindranath, 2015; Junni, Sarala, Tarba, & Weber, 2015). However, to exploit these heterogeneous benefits, the MNE has to bear transaction costs associated with managing the differences in local contexts (Bjerregaard & Jonasson, 2014; Hennart, 2009).

Following these arguments, this paper argues that local context determines the firm's strategy of internationalisation, its range for geographic expansion, choice of location, amount of foreign direct investment (FDI) and scope of internalisation. It contributes to the evolving literature on multiple-embeddedness by identifying its theoretical foundations in internalisation theory (Buckley & Casson,

1976). It argues that the basic premise of multiple-embeddedness approach lies in the MNE's endeavour to create greater utility through successive internalisation of location attributes across borders (Hashai & Buckley, 2014). Using internalisation theory within the multiple-embeddedness approach is apposite because it allows us to probe into both opportunities and challenges in a given local context presented to the MNE. We are thus able to extend internalisation theory by developing notion of optimal embeddedness based on the balance of cost and benefits of engagement by the MNE with aspects of the host country.

The findings, based on the empirical context of cross-border acquisition by Indian MNEs, suggests that embeddedness in a number of host countries make the internationalisation of MNEs from emerging economies geographically more clustered. This allows emerging economy multinational enterprises (EMNEs) to create a strategic portfolio of subsidiaries that are firmly embedded in specified local contexts, which enables them to derive distinct but complementary (locational) benefits from these local contexts. However, embeddedness in a number of host countries entails transaction costs that further affect the MNE's decision on the internalisation of markets (Buckley & Casson, 1976).

The study further finds that the embeddedness in the home country shapes the entrepreneurial abilities of EMNEs. This has a significant impact on their embeddedness decision in host markets and differentiates them from traditional MNEs that originate from advanced economies. These differences add value to the study of emerging economy MNEs (Munjal, 2014a; Ramamurti, 2012). Thus, this study further contributes to the literature on emerging economies by modelling local contexts within the internationalisation strategies of Indian MNEs, through cross-border acquisitions, especially because many earlier studies give an inadequate view of the geographical distribution of cross-border acquisition by Indian MNEs.

Local context, Embeddedness and Internationalisation

Globalisation has led to increasing integration of the world economy but differences among local contexts have remained (Ghobadian et al., 2014; Rugman & Oh, 2013). Scholars (e.g. Buckley & Ghauri, 2004; Gammelgaard, McDonald, & Tüselmann, 2009) argue that the MNE exploits these local differences by creating an internal hierarchy whereby subsidiaries are floated with special mandates: i) to take advantages of local resource endowment; and ii) in response to the local institutional framework. The embeddedness of headquarters and subsidiaries in a variety of locations ultimately influence the evolution, behaviour and performance of multinational enterprises (Cantwell, Dunning, & Lundan, 2010; Meyer, Estrin, Bhaumik, & Peng, 2009; Meyer et al., 2011; North, 1992).

Theoretically, the fundamental principle of multiple-embeddedness lies in the location choice for exploitation of local advantages and through successive internalisation of cross-border activities by the MNEs. Hashai and Buckley (2014) suggest that the MNE are 'able to create greater utility' (p.48) by internalizing advantages attached with a specific location. Dunning (1977, 1988) associates location advantages with the variation in the resource endowments between home and host countries. He suggests that differences in both man-made and natural resource endowments among countries inform the MNE's motivation to internalise operations in particular foreign markets by undertaking foreign direct investment.

The MNE invests in countries that are endowed with natural resources, such as oil, gas, metals and minerals, because natural resources are normally location bound. Such resources are accessible only to those firms which are embedded within the location (Estrin, Baghdasaryan, & Meyer, 2009). Similarly, man-made resources, such as specialised knowledge and technology, are often bound in knowledge clusters and hotspots where the MNE needs to physically embed in order to access such resources, and to collaborate with other firms as well as to benefit from the industry spillovers.

Embeddedness in a cluster of countries to seek natural or man-made resources can inform the regionalisation strategy of the MNE. Rugman (2014) suggest that even large MNEs are regionally embedded, not globally. He associates regional focus with the enhanced financial performance and sustainability of the MNE. However, a wider geographical spread is a strategy to diversify risk (Qian, Khoury, Peng, & Qian, 2010) and boost innovation by amassing complementary knowledge resources from a variety of locations (Papanastassiou & Pearce, 2009). Thus, multiple-embeddedness in an array of host countries can be viewed as the MNE's strategy to gain and sustain competitive advantages (Huang et al., 2015). It allows the MNE to undertake international arbitrage of tangible and intangible resources from different sources. However, the firm needs the ability to internalise the externally available resources so that it can transfer and combine resources across multiple contexts (Meyer et al., 2011).

However, to benefit from local resource endowments, the MNE needs to adapt and conform to the local institutional framework (Butler, 2003) which provides a set of fundamental political, social, and legal rules applied to the place where the MNE's economic activities are conducted (Davis & North, 1971). Differences between local institutional frameworks make embeddedness challenging for the MNE. It raises transaction costs for monitoring and coordinating operations in foreign markets, and learning costs for understanding and adapting to the way of doing business in distinct institutional frameworks (Boeh & Beamish, 2012; Buckley, Munjal, Enderwick, & Forsans, 2016c). Thus, knowledge and understanding the local institutions and adaptation is a key for the MNE's success (Ghemawat, 2007). The Uppsala model (Johanson & Vahlne, 1977, 2009) also emphasises the

importance of knowledge in the local market context. It suggests that an understanding of the local market psychology, attained through the MNE's embeddedness in the local context, helps the MNE to overcome the liabilities of foreignness (Zaheer, 1995) that arise in the internationalisation process.

It's worth noting that the MNE's needs and motivations to internalise local resources interact with the host country's institutional framework. The MNE generally prefers to operate in locations where the political risk is low and institutional framework is fair and transparent. Research suggests that cumbersome bureaucracy, an unstable political environment, corruption, and inconsistent policies enhance 'political risk' within the local institutional framework, adversely affecting the MNE (Ibeh & Young, 2001). Host countries often seek to simplify institutional framework in order to attract foreign direct investment (Kaufmann, Kraay, & Mastruzzi, 2009; Rodrik, Subramanian, & Trebbi, 2004).

In contrast, the MNE may enter into unfamiliar institutional contexts, rendering the quality and level of institutional development irrelevant (c.f. Meyer et al., 2009), to access the resources it needs. In other words, a very strong motivation to acquire certain local resources may push the MNE to invest in a risky location. Investments by Chinese MNEs in Syria, Iraq and Sudan to acquire hydrocarbon-based natural resources are classic examples, which show that the effect of institutional quality can be moderated by the local resource endowment (Munjal, 2012). Nevertheless, more rewarding investment locations or decisions are frequently associated with higher risk (Fama & MacBeth, 1973).

Scholars associate the decision to locate in riskier host countries with the MNE's prior knowledge of local context (Sitkin & Pablo, 1992). Prior knowledge and experience mitigates risks associated with local environments (Munjal & Pereira, 2015) and further influence the MNE's ability to expand and benefit from the endowment of local resources (Forsgren, Holm, & Johanson, 2007).

In the process of embedding in a variety of local contexts, the MNE incurs costs associated with the information and management effort required in each host country entered. These costs of embeddedness have to be traded off against the benefits. For each host country there is an optimal degree of embeddedness that will vary with the local context as determined by its resources and institutions. This is captured in our hypotheses. A consequence of the notion of an optimal degree of embeddedness is that it is beneficial, in certain circumstances, for MNEs to reduce their degree of embeddedness (where its costs exceed benefits).

Figure 1, based on Meyer et al. (2011), shows our conceptual model. It shows three contexts – one home and two host contexts. The HQ is embedded in home country while subsidiaries are embedded in host countries. Here, the local contexts represent advanced versus emerging economies (Meyer et al., 2011), where advanced economies present a strong base for market and knowledge assets while

emerging economies present natural resources. The advanced versus emerging economy contrast presents dissimilar institutional setups that facilitate and challenge the MNE.

To summarise the theoretical background, we argue that embeddedness in local context is a key determinant of the size and direction of FDI undertaken by EMNEs. The resource endowments and local institutional frameworks influence the attractiveness of individual host countries. The motives and local attractiveness are mirror images of each other in that the motives of acquisitions are aligned with local conditions in target countries. Our hypotheses reflect this interaction between MNE strategy and the local context.

Hypotheses Development

We now propose five hypotheses that are derived from resource and institutional variation in local contexts and the EMNE's reaction to these variations. Our first three hypotheses represent resources and the last two represent institutions.

Resources Diversity and Embeddedness

The general theoretical explanations propose that resource diversity interacts with the motives for undertaking FDI – market seeking, resource seeking, efficiency seeking and strategic asset seeking. Following prior studies (such as, Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007a; Buckley, Enderwick, Forsans, & Munjal, 2013) we do not expect that efficiency seeking to be a strong motive for internationalisation for EMNEs.

Market seeking FDI: The MNE often ventures out into other economies in order to localise and to serve the market. Prior research (Buckley et al., 2007a; Chakrabarti, 2001; McDonald, Tüselmann, Voronkova, & Golesorkhi, 2011) suggests that market seeking FDI is induced by the size and purchasing power of the host economy as these market attributes allow the investor to earn more profit from the investment undertaken. Furthermore, market seeking FDI often takes place through acquisition of local firms in the host economy because acquisition provides quick access to market share and control over marketing assets, such as distribution channels and recognised brands (Sauvant, 2005). Buckley (2009, 2011, 2016a) argues more control should be exercised over downstream marketing activities because these activities add more value than regular operations/production activities.

Thus, foreign acquisitions for market seeking purposes usually take place in economically advanced countries because these countries provide large market size, higher purchasing power, established distribution channels, recognised brands and other marketing skills in comparison to emerging

economies where market size is generally small, purchasing power is comparatively low and marketing assets are not widely available. Furthermore, the market conditions in emerging economies are usually atypical because of lack of resources and missing markets due to the lower level of development.

We argue that although EMNEs are equipped to work under the conditions of missing markets and resource constraints and therefore they are adept at producing goods and services that are optimal for countries developing under those circumstances, their foreign acquisitions for market seeking motives are targeted at advanced economies because acquisition also provides the EMNE with the capability to serve the market in economically advanced countries. Post-acquisition, the acquiring firm gains control over the product portfolio, brand and distribution channels, and other marketing resources of the acquired firm that enables it to serve the market in advanced economies.

Finally, in response to the argument which suggests that due to the lack of marketing assets and skills the EMNE operates more often in business to business market we argue that foreign acquisition not only provides globally known consumer brands but also other marketing assets, such as business relationship, warehousing and distribution channels, required for serving business to business market. Hence, we hypothesise that:

> **Hypothesis 1:** Foreign acquisitions by EMNEs seeking markets are more inclined towards context 1(advanced economies) than context 2 (emerging economies).

Natural Resource seeking FDI: Endowment of natural resources is another key aspect of local context that attracts foreign direct investment. The EMNE's decision to invest in natural resources is a reflection of the global industries in which they have a foothold. It is also well understood that EMNEs do not necessarily have traditional ownership advantages and indeed they often have advantages in industries in which commodities are an important upstream component. Gaining access to natural resources through OFDI therefore is a vertical integration strategy relevant to specific types of industries in which EMNEs dominate.

Acquisition is regarded as a common strategy to secure natural resources in foreign countries because equity-based control is necessary for realising uninterrupted access (Buckley et al., 2007a). However, there are at least two basic issues associated with accessing natural resources in a foreign country: first, natural resources are normally under the direct control of the state; and second, natural resource seeking FDI usually takes place in the earlier phases of economic development of a country (Dunning & Narula, 1996).

The availability of natural resources does not depend upon the economic development of the local context but developing countries are likely to attract more FDI because developing countries usually have resources in excess of their own economy's ability to absorb them. These countries often lack the technological capabilities to process and refine the raw resources and therefore they sell natural resources to pay for imports of capital goods, technology and other resources which are not available in their domestic economy (Drucker, 1986).

The package of accessing natural resources in developing countries often comes with high levels of bureaucracy and corruption in the government machinery, which often deters the MNE's decision to invest. However, EMNEs are generally better equipped, primarily due to their prior experience, to deal with government machinery and bureaucracy and therefore we expect that the EMNE will be more inclined to seek natural resources in other developing countries. Thus, we hypothesise the following:

> **Hypothesis 2:** Foreign acquisitions by EMNEs seeking natural resources are more inclined towards context 2 (emerging economies) than context 1 (advanced economies).

Strategic resource seeking FDI: The evolving literature on the EMNE's rapid internationalisation suggests that cross-border acquisitions by EMNEs are directed at the acquisition of knowledge and technology to complement their own capabilities and resources (Buckley, Munjal, Enderwick, & Forsans, 2016b; Luo & Tung, 2007). Scholars argue that EMNEs move abroad to acquire knowledge, skills and technology that are not available at home (Buckley, Munjal, Enderwick, & Forsans, 2016a; Pradhan, 2007). It helps the firm to enhance their performance and achieve strategic agility, i.e. the ability to stay competitive by adapting and augmenting strategic resources (Junni et al., 2015; Munjal, Buckley, Enderwick, & Forsans, 2013).

Since most of the innovative technology and globally recognised marketing resources, such as prominent brands, are available in advanced economies acquisitions, the acquisition of such strategic resources are largely targeted in advanced economies. There are rising number of examples where acquisitions are made by EMNEs in advanced economies for seeking strategic assets – for example, the acquisition of IBM's PC business by Lenovo, and the acquisition of Volvo by Geely. Thus, we hypothesise that:

> **Hypothesis 3:** Foreign acquisitions by EMNEs seeking strategic resources are more inclined towards context 1 (advanced economies) than context 2 (emerging economies).

Institutional Variation and Embeddedness

Political risk: A further contrast between advanced and emerging economies is the quality of governance and institutional development, where emerging economies generally have lower level of institutional development than advanced economies. The institutional foibles are continuously addressed by local governments in host economies by bringing in requisite changes in the rules and regulations from time to time. These changes in the institutional environment are termed 'political risk' which broadly characterizes the impact of 'politics on markets' (Bremmer, 2005, p.51).

While political risk can exist in any country, developing countries, owing to weaker institutions, are more likely to be associated with a greater likelihood of wholesale change in policies. In contrast, political risk in contexts of stronger institutions is more likely to be an association of political (and hence policy) stalemates than with changes to the rules of the game.

From a theoretical point of view, an investment undertaken by the firm is sensitive to, and inversely related with, political risks in host countries (Harms, 2002). Internalisation theory suggests that countries with high political risks will be serviced by arm's length servicing modes, such as exporting, licensing, and outsourcing, because FDI involves higher commitments and sunk costs (Buckley & Casson, 1981, 1999; Delios & Henisz, 2003). However, recent research suggests that different firms respond to these institutional factors in different ways (see for example, Buckley, Yu, Liu, Munjal, & Tao, 2016d; Meyer & Thein, 2014).

Contrary to the theoretical argument on political risk, our supposition is that EMNEs have the ability and experience in dealing in politically risk environment due to embeddedness at home. In other words, home embeddedness provides an ownership advantage (Ferraris, 2014) to EMNEs which makes them impervious to the political risk in host countries. This enables the EMNE to deal with a similar institutional environment abroad, thereby making them indifferent towards political risk in the host country. Thus, we hypothesise that:

> **Hypothesis 4:** Foreign acquisitions by EMNEs are indifferent towards the political risks both in context 1 (advanced economies) and context 2 (emerging economies).

Cultural distance: Culture is an important factor contributing towards the diversity of local context in the host economy. The internalisation approach to FDI treats cultural distance as an important element of transaction costs of doing business abroad - the liability of foreignness (Zaheer, 1995). Here we take cultural distance as a proxy for the costs of becoming embedded in the host country.

In the international business literature, cultural distance is often referred to as the distinction between home and host countries on various cultural elements, such as religion, language, religion, beliefs, values and other cultural norms (Ghemawat, 2001). Culture is an informal institution (Scott, 1995) to which the MNE needs to adhere in order to operate successfully in a host country. Generally, cultural distance generates transaction costs and raises the risk associated with trade and investment activities. On the other hand, cultural closeness may reduce transaction costs and the risks in entering a foreign market due to similarity of business laws, customs, means of doing business and possible familial links (Johanson & Vahlne, 2009). It is therefore expected that a negative relationship exists between cultural distance and FDI decisions.

Nonetheless, we argue that cultural distance does not determine the choice between the EMNE's decision to locate in advanced or emerging economies as this decision is based on the other local contextual factors, as explained in other hypotheses. Moreover, cultural factors may be similar in advanced and emerging host economies, e.g. the English language in the USA and South Africa. Theoretically, cultural distance reflects on the transaction costs of international business and the typical spread of the EMNE's foreign acquisitions across both advanced and developing countries are likely to face costs of embeddedness in both sets of countries. Thus,

> **Hypothesis 5:** Foreign acquisitions by EMNEs face costs of embeddedness in foreign countries arising from cultural distance from EMNE's home country in both context 1 (advanced economies) and context 2 (emerging economies).

Data and Method

Empirical Context

To test our hypotheses, we use cross-border acquisitions by Indian MNEs as the empirical setting because Indian MNEs present a rich story to explore and valid grounds for an empirical investigation for the following reasons. First, acquisition is the preferred mode of entry for Indian MNEs, and is the prime Indian outward FDI route (Athukorala, 2009). Second, Indian MNEs have made many iconic acquisitions, e.g. the acquisition of Jaguar and Land Rover by Tata Motors that have raised interest in internationalisation behaviour of MNEs from emerging economies. Third, despite being latecomers, Indian MNEs have successfully established themselves as key competitors in the global economy. Acquisition has enabled many Indian MNEs to become global leaders, surprising their peers and industry analysts (Thite, Wilkinson, Budhwar, & Mathews, 2015). Finally, and most importantly, using cross-border acquisitions, Indian MNEs have embedded in a wide range of host countries across

the world. Our database suggests that over a period of 8 years, starting from 2000, Indian MNEs have undertaken 623 acquisitions in 70 host economies – 27 advanced and 43 emerging.

The role of evolving local institutions makes the Indian context interesting. Scholars (Cantwell et al., 2010) argue that MNEs co-evolve with the institutional development at home and institutions facilitating internationalisation are regarded as 'Oi' type ownership advantage (Dunning & Lundan, 2008). The gradual liberalisation of India's outward investment policy is regarded as an enabling institution that has affected the foreign investment trends, patterns and capabilities of Indian MNEs. Notably, liberalisation in 2003 had a significant effect on foreign acquisitions by Indian MNEs (Buckley et al., 2012). Arguable, these changes allowed Indian MNEs to take on larger acquisitions deals, most of which were undertaken in advanced economies in seeking globally known brands and superior technologies.

Data and Unit of Analysis

We sourced annual data on cross border acquisitions by Indian firms from Thomson One Banker M&A database because the Reserve Bank of India (RBI), the official FDI data reporting agency of India, does not compile data on cross border mergers and acquisitions. Moreover, the outward FDI data reported by the RBI is not disaggregated, which prevents any meaningful analysis. Thomson One Banker is a well-regarded database providing detailed information for each acquisition deal. The database has been used in many previous studies in international business, accounting, finance, and economics (Daniels, Krug, & Trevino, 2007; Lara, Osma, & Noguer, 2006; Zou & Ghauri, 2008).

Our unit of analysis is the host country as our hypotheses seeks to examine the factors affecting the embeddedness of Indian MNEs in host economies using M&As. Thus, to compile our database, we match the dependent variable (acquisitions) by year and by host country and collect independent variables (such as the host country's market size, natural resource endowment, political risk, and so on) by year for each host country to create a data set. The variables and data sources are given in Table 1. We divided the 70 host countries into two – advanced and emerging economies– to undertake a split analysis. This is because we expect heterogeneity within their local context and that the motives of acquisitions in advanced economies are different from those in emerging ones, as proposed in our hypotheses above.

Model and Estimation

Since acquisition is measurable in two ways – value of acquisitions and number of acquisitions, we constructed two models, which are presented below.

$$MAValue_{ct} = \alpha + \beta_1 R_{ct-1} + \beta_2 I_{ct-1} + \beta_3 x'_{ct-1} + \mu \quad (1)$$

$$MANo_{ct} = e^{(\alpha + \beta 1 R_{ct-1} + \beta 2 I_{ct-1} + \beta 3 x'_{ct-1})} + \mu \quad (2)$$

Where, R_{ct-1} *represents host country's resource diversity in time t*-1, I_{ct-1} *represents host country's* institutional variation in time t-1*;* β_1*,* β_2*,* β_3 are the usual regression coefficients, x' is a vector of *control variables;* μ is the error term.

The first model estimates the value of cross border acquisitions. In this model, we transformed both dependent and a set of independent variables into natural logarithms and derived a log-log linear model. We did not take the log of binary and computed variables. The log-log function enables the transformation of a non-linear relationship and directly measures the elasticity for every explanatory variables (Crown, 1998). In line with earlier research, we have used one year lag of time-variant independent variables because the strategic decision to undertake cross-border acquisition at time t depends upon the resource and institutional characteristics of host country at time t-1. Furthermore, lagging independent variables address the problem of endogenity (Buckley et al., 2016b; Greene, 2003).

We have used cross section Pooled OLS (POLS) to estimate our first model measuring value of acquisitions against the alternative of using panel data regression. The key reasons for our choice are detailed below.

i. The nature of the dependent variable: our case dependent variable is cross-border acquisition which is a random variable, i.e. acquisition is not a routine activity of firm in which a time series can be expected. However, panel data methods aim to estimate both time series and cross section relationship among dependent and independent variables (Greene, 2003).
ii. Fit between theory and method: our theoretical arguments and hypotheses built around multiple-embeddedness are static. We do not examine embeddedness as a time dependent variable – that is at what point in time embeddedness takes place, and therefore application of panel data methodology does not fit with the theoretical foundations of the paper. In other words, there is a misfit between theory and methods, if panel data regression is used, while the application of cross-section POLS regression fits with the theoretical arguments.
iii. Unobserved heterogeneity: The panel data alleviates the issue of unobserved heterogeneity (Arellano, 2003; Wooldridge, 2010). However, our models are well grounded in the multiple-embeddednes theoretical framework. It accounts for: i) host country embeddedness (due to resources and institutions variations – included as main variables); as well as ii) home embeddedness (included as control variables). This means that our models are adequately

specified with predefined variables, and we do not expect any significant unobserved heterogeneity in our model.

iv. Additional controls: Addison and Heshmati (2004) suggests that the POLS regression, which starts with simple linear relationship between dependent and independent variables, can be used to build models that control for the time and individual effects. Our model do control for time fixed effects and unobservable heterogeneity.

The second model is estimated using the Negative Binomial regression because unlike value of acquisitions number of acquisitions is not a continuous variable. Number of acquisition are discrete numbers represented by count for which maximum likelihood based method such as the Negative Binomial regression is more appropriate (Greene, 2003; Hilbe, 2011). Our model specification is reliable because we covered both aspects of acquisitions: the number and the value.

Variables

The definition and source of each variable in our models highlighted in Table 1 which also shows that our independent variables are obtained from reliable sources. Measures for all variables in Table 1, except political risk and cultural distance, are directly sourced from respective sources. The measures for political risk and cultural distance are explained below.

Political risk is measured using a weighted composite index made up of 12 different country specific variables, such as internal and external conflicts; religion, military in politics; socioeconomic conditions; government stability; corruption, law and order; bureaucracy; and democratic accountability, drawn from the International Country Risk Guide. The index used is comprehensive and covers social, economic, political and financial aspects of a country. Details about the factors the variables used in computing political risk are available at www.prsgroup.com. The higher the index, the lower is the risk and vice versa. The formula to compute the index is as follows:

$$PRI_j = \sum [12(GS_j + SEC_j + IP_j + IC_j + EC_j) + 6(C_j + MIP_j + RT_j + LO_j + ET_j + DA_j) + 4(BQ_j)]/100$$

Where, PRI_j = Political Risk Index of jth country; GS_j = Government Stability Index of jth country
SEC_j = Socioeconomic Conditions Index of jth country; IP_j = Investment Profile Index of jth country
IC_j = Internal Conflict Index of jth country; EC_j = External Conflict Index of jth country
C_j = Corruption Index of jth country; MIP_j = Military in Politics Index of jth country
RT_j = Religious Tensions Index of jth country; LO_j = Law and Order Index of jth country
ET_j = Ethnic Tensions Index of jth country; DA_j = Democratic Accountability Index of jth country
BQ_j = Bureaucracy Quality Index of jth country

Cultural distance is measured using the modified version of Kogut and Singh's cultural distance index which has been used in various studies (Benito & Gripsrud, 1992; Buckley et al., 2007a; 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:

$$CD_j = \sum_{I=1}^{4} [(I_{ij} - I_{id})^2 / V_i] /4$$

Where, CD_j = cultural distance of i^{th} country from India; I_{ij} = index of the i^{th} cultural dimension and the j^{th} country; I_{id} = index of the i^{th} cultural dimension of the India (d stands for India); V_i = is the variance of the index of the i^{th} cultural dimension.

We control for a number of variables that could also affect the MNE's decision to become embedded in a host country, such as the geographic and economic distance between India and host countries (Ghemawat, 2001). All these distances affect the transaction costs of doing business abroad. Geographic distance is measured by taking the physical distance between capitals of home and host countries (Buckley et al., 2007a). Whereas, economic distance between the home and host countries is represented by considering the openness of the host economy (Asiedu, 2002) and the foreign exchange rate (Aliber, 1970). Here the control for the foreign exchange rate is important because during the period under examination, the US dollar depreciated by about 15 percent against the Indian Rupee. Buckley, Forsans and Munjal (2012) found that the depreciation of the US dollar had a positive impact on the acquisition activities of Indian MNEs.

Following the extant literature, we further controlled for: i) the English language; ii) the domestic stock market; iii) inward flows of FDI; and iv) liberalisation of outward investment policy, as these variables are likely to have a significant effect on the EMNE's embeddedness in foreign countries. English is a commonly spoken language in India and it forms a source of home based competitive advantage for Indian MNEs (Buckley et al., 2012); valuations in domestic stock market (Baker, Foley, & Wurgler, 2009) and inward flows of FDI (Buckley, Wang, & Clegg, 2007b; Dunning & Narula, 1996) are likely to affect the availability of capital required for undertaking FDI; and reforms in the home country's institutions (Bevan, Estrin, & Meyer, 2004; Buckley et al., 2007a; Chittoor, Sarkar, Ray, & Aulakh, 2009) is likely to push the EMNE's international venturing.

Results and Discussion

The results, presented in table 2, are consistent for both models which show that our measures and results are robust. Descriptive statistics and multicollinearity statistics are presented in the table 3 which shows that our models do not suffer from multicollinearity.

Benefits of Multiple-Embeddedness in Host Countries

As hypothesised, our results suggest that multiple-embeddedness in a variety of local contexts provides contrasting multiple benefits, for instance, assess to natural resources in developing countries, and access to market and strategic assets in advanced economies. The significance of market seeking motives (Hypothesis 1) in the advanced economies suggests that EMNEs have strong incentives to establish a local presence in economies with large market and high per-capita income. Small under-developed markets in emerging economies do not significantly attract them. Acquisition seems to be a more sensible way to embed locally and acquire market share, especially in developed countries where markets are often highly competitive and saturated. Acquisitions provide speedy entry into foreign markets and allow the gaining of well-established brands, marketing skills, and distribution networks overseas (Madhok & Keyhani, 2012) which is a key major motive of EMNEs when investing abroad (Pradhan & Abraham, 2004; Sauvant, 2005). It is important to note that the internalisation of marketing assets through acquisition not only enables the acquiring firm to strengthen its position in the consumer market but it also helps in non-traditional marketing, e.g. business to business marketing which is often the focus of EMNEs while internationalising.

In contrast, EMNEs are embedding into emerging economies to seek natural resources (Hypothesis 2). The resource seeking motive has a strong relationship with the endowment of natural resources and in order to realise it, the MNE has to embed itself in a natural resource-rich location. The significance of emerging economies for resource seeking further indicates that EMNEs in general and Indian MNEs in particular have the ability to deal with the inherent institutional hazard in developing countries. EMNEs often have the ability to deal with issues such as high levels of bureaucracy and corruption, which can be an outcome of embeddedness at home (Hoskisson, Wright, Filatotchev, & Peng, 2013).

Arguably, EMNEs' need to invest in developing countries to gain access to natural resources is also a reflection of the global industries in which they have a foothold. It is well understood that EMNEs do not necessarily have traditional ownership advantages and indeed they often have advantages in industries in which commodities are an important upstream component. Gaining access to natural resources through OFDI therefore is vertical integration strategy relevant to the specific types of industries in which EMNEs dominate.

There are many examples that suggest that EMNEs, particularly from India and China are targeting resource-rich African and Asian countries in order to secure the supply of natural resources not available at home. This is typically the case for companies engaged in power generation and petroleum industry. For instance, 'Oil and Natural Gas Corporation of India', a public sector enterprise, acquired a 20 per cent stake in Russian oil company 'Rosneft' for US $ 1.7 billion, a 16.67 per cent stake in Kazakhstan state-owned 'Kashagan' for US $ 790 million, and a 25 per cent stake in the Greater Nile Petroleum company in Sudan for US $ 767.76 million. Tata acquired coal mines in Indonesia for US $1.3 billion. Chinese and Indian MNEs are engaged in securing natural resources to fulfil the energy requirements at home. It is interesting to note that the Indian government has set up public sector companies to acquire natural resources from abroad with the aim of fuelling the manufacturing sector in India and also to compete with Chinese FDI in Africa (ET, 2013).

This finding also informs an evolving line of research examining the role of EMNE's ownership on its location choices. A key argument here is that because public sector enterprises and EMNEs affiliated to business groups can draw on internal capital markets they are able to mitigate the problems associated with sourcing funds from external capital markets. This advantage further allows them to seek natural resources from other developing countries which are comparatively more risky than advanced economies (Bhaumik & Driffield, 2011; Bhaumik, Driffield, & Pal, 2010). Since our work did not model specifically the ownership factor in empirical modelling future research can integrate firm's ownership with the motives of internationalisation to extend this line of thought.

Our hypotheses regarding EMNEs embeddedness in advanced economies in seeking strategic assets (Hypothesis 3) is not supported, as the variable did not attain desired level of significance in the sub sample analysis. We think this may be partially attributed to country classification and partly to the proxy (patent registrations) used to measure strategic assets. Our data suggests that emerging economies, such as China and Russia, make a very high number of patent registrations. We argue that even though emerging economies are catching up in knowledge industries and innovation, their endowment of strategic assets is not significant in attracting the EMNEs making strategic asset seeking FDI. Globally known brands and superior technologies are required by the EMNE to build competitive advantage and such strategic assets are more likely to be found in the advanced economies (Munjal, 2014b). Although our results are not significant, we maintain the argument that the EMNE's choice of external embeddedness is increasingly driven by the location bound resources and strategic assets (Contractor, Kumar, Kundu, & Pedersen, 2010; Meyer et al., 2011; Pereira, Munjal, & Nandakumar, 2016).

Many EMNEs in knowledge intensive industries such as pharmaceuticals, automobiles, steel, software, and telecommunications have made acquisitions in the USA, Germany, the UK, and

Singapore to absorb the foreign technology they need to build their competitiveness. For instance, Tata Motors acquired Land Rover and Jaguar from Ford Motors in the UK for US $ 1.15 billion. Tata Steel acquired Anglo-Dutch steel maker Corus for US $ 7.6 billion in order to internalise the production capacity and modern steel production technology. Dr. Reddy's Laboratories, an Indian leading Pharma company, acquired Betapharm Arzneimittel GmbH of Germany for US $ 581 million in order to access the generic drugs market in Germany. Suzlon Energy limited, a leading wind turbine producer, acquired REpower Systems AG of Germany for US $ 53 million. In all these cases, and others, EMNEs acquired foreign firms in order to gain access to the market, global brands and foreign technology in advanced economies. Thus, acquisitions for market and strategic asset seeking motives make acquisitions by EMNEs regionally concentrated more in the USA and Western Europe. Future research can re-examine this hypothesis on other samples using other proxies for measuring strategic assets.

Costs of Multiple-Embeddedness in Host Countries

There are trade-offs and costs of embeddedness that adversely affect the MNE's decision to locate in any foreign country (Hennart, 2009) which are captured in hypotheses 4 and 5. As expected, political risk (Hypothesis 4) is not significant across both models, indicating that EMNEs are indifferent and resilient towards political risk. Developing countries in general rank poorly on various social and political indicators of risk. It appears that EMNEs have gained the 'entrepreneurial ability' of coping with political risk at home. Thus, the institutional environment at home has helped in the development of a certain type of firm specific ownership advantage (Ferraris, 2014; Rugman, 2014) that has increased EMNEs' immunity towards political risk in host countries. This explains why EMNEs have been able to target acquisitions in other emerging economies that are politically risky. This is in contrast to the general perception that MNEs prefer to operate in low risk environments (Harms, 2002). It is argued that EMNEs do not perceive and behave towards political risk in the manner that advanced economy MNEs do and the outward FDI decisions of EMNEs appear not to be significantly affected by the level of political risk in host countries (Buckley et al., 2016d). This highlights the idiosyncrasy of EMNE's outward FDI behaviour. Although the Chinese context is a little different from Indian context, similar findings on political risk were reported by Buckley et al. (2007) in the context of Chinese MNEs. The State's involvement and financial support to Chinese MNEs makes them more indifferent towards political risk in host countries (Hong, Wang, & Kafouros, 2015) which is why Chinese MNEs have invested in countries, such as Iraq, Sudan, Syria and other African countries, where political risk is high.

In line with our assumption, cultural distance (hypothesis 5) is significant with the expected negative sign, suggesting that cultural differences add to the challenges of multiple-embeddedness. In the case

of Indian and Chinese MNEs, it is sometimes argued that geographic and cultural diversities at home have allowed these MNEs to learn about cultural diversity in their home countries (Kumar, 2008). Though these skills can be transferred internationally, it will not totally negate the cost. This, however, makes the cost of embedding abroad lower than for other nationalities of ownership. Thus, higher levels of cultural distance to India mean higher transaction costs and therefore, a negative association with FDI activity is understandable.

Spanning large geographic distances by EMNEs, which is associated with higher cultural distance and economic distances, add to the costs of embeddedness (Ghemawat, 2001) in both advanced and developing countries. We thus controlled for geographic and economic distance between home and host countries. We find that geographic distance is insignificant, which is supportive of the fact that India has bitter rivalries with its neighbouring countries which have adversely affected the mutual trust among these countries and have restricted India's trade and investment relationship with them (Buckley et al., 2012; FCO, 2007). Our other control variables representing economic distance show mixed results. Openness of the host economy is not significant but foreign exchange rate significant and with the expected negative signs. This indicates that the openness of host economy does not influence cross-border acquisitions while depreciation of the US dollar has boosted the cross-border acquisitions undertaken by Indian MNEs. We further controlled for the English language to supplement cultural distance. The variable is significant, suggesting that the English language aids Indian MNEs by compensating for cultural distance.

We also controlled for the domestic stock market, inward flows of FDI and liberalisation of outward FDI policy. As expected, foreign acquisitions are positively affected by the valuations of stocks in the stock market (Baker et al., 2009). High stock prices in capital market provide an opportunity to companies to sell their stocks at premium rate thereby realising more cash which can be used for undertaking cross-border acquisitions (Buckley et al., 2012). However, we found that India's inward FDI flows and liberalisation of FDI policy are not significant in explaining outward FDI through acquisitions. We argue that this is because India is atypical of emerging economies, having large FDI outflows in recent years relative to the small size of inflows appropriate to a country at the early stages of its development path, which is a "surprising result for a poor country" (Ramamurti & Singh, 2009, p.110).

Conclusion

This paper explores the role of local context in examining the internationalisation strategies of EMNEs using Indian MNEs as an empirical context. It is also the first comprehensive attempt to model the determinants of Indian outward FDI through acquisitions by reference to location and

country-specific variables. Using a dataset on foreign acquisitions by Indian MNEs in 70 countries over the period 2000-2007 we tested a number of hypotheses. We find that the EMNE's outward FDI through cross-border acquisitions has novel, idiosyncratic and conventional dimensions. The novel aspect of the EMNE's cross-border acquisitions is reflected in the strategy of acquisitions targeted at a small number of countries to maximise the benefits from local resources, idiosyncrasy is revealed in reducing the cost of embeddedness through transferring knowledge on coping with institutional factors at home, and conventionality is shown in the motives underlying foreign acquisitions. Thus, while multiple-embeddedness in heterogeneous host countries benefits the MNE, such as the large market size and the endowment of strategic- assets of the advanced economies, and natural resources from emerging economies; they seem to be particularly advantaged by factors deriving from home embeddedness.

Challenges at home, such as political risk, provide EMNEs with the experience to deal with institutional voids, made them resilient and less sensitive towards similar environmental problems in host countries. This feature attributable to EMNEs in general makes them distinct from advanced economy MNEs. It has also given them an ability to deal in more politically risky emerging economies offering potential opportunities (Asiedu, 2006). Other advantages provided by home embeddedness includes: i) the strengthening domestic currency; and ii) rising valuation of stocks in the home stock market, (together they have helped fund foreign acquisitions). English language proficiency particularly in the case of Indian MNEs makes it easy to do business abroad, particularly in English speaking countries. This helps to explain why the USA and the UK are the two largest host countries for Indian MNEs. Low economic integration within the South-Asia region also seems to have pushed outward FDI from India to developed countries such as the UK and the USA.

This study supports Buckley et al. (2007a) finding that special home country related advantages complement general explanations in FDI theories, to explain the flows of outward FDI from emerging economies. This study also highlighted the heterogeneity of local contexts in host countries and provided empirical support to the multiple-embeddedness framework proposed by Meyer et al. (2011). It suggests an extension of the Meyer at al. (2011) approach by considering embeddedness as a series of transactions between the MNE and local actors involving the internalisation or quasi-internalisation of markets in resources, information and political influence. It also offers an extension to internalisation theory by portraying cost and benefits of engagement in host countries through embeddedness. Consideration of the costs of embeddedness (Hennart, 2009) leads to the notion of optimal embeddedness in individual host counties, and potentially to optimal global embeddedness. This entails attention to the costs of 'bundling' foreign assets with local ones.

It contributes to the globalisation versus regionalisation debate by emphasising the role of similarities in local context regionally. We argue that the local country context often trickles up to the regional context. Ronen and Shenkar (2013) mapped national cultures around the world in three levels of similarity. African countries can be clustered in terms of resource endowment and high political risk and can inform the regional expansion strategies for resource seeking MNEs. Home embeddedness, e.g. the case of Chinese MNEs, has been often used by scholars to explain their embeddedness in neighbouring East Asia countries (Buckley, 2016b; Hong et al., 2015).

This study has implications for the Uppsala model (Johanson & Vahlne, 1977, 2009). Our arguments about home embeddedness provides an alternative explanation for regional expansion in contrast to the role of experiential knowledge, learning and the use of network in the MNE's gradual expansion to culturally close countries.

A major limitation of this work is in the aggregation of acquisitions data at country level. Although it reveals the role of resource endowment and institutional framework in multiple-embeddedness, it misses the opportunity to analyse data at the subsidiary level. Future research work can consider the firm as the unit of analysis and examine the MNE's embeddedness decisions at subsidiaries level. Future work can also examine the impact of institutional reforms at home, e.g. recent reforms in the Indian coalmining sector have influenced Indian MNEs' strategies of venturing abroad. Reliance Power has recently decided to sell off three foreign coal mines, it acquired in 2008, to focus on the coalmining business in India (ET, 2015). Thus, divestment abroad can accompany increased embeddedness at home.

The study offers managerial implications by suggesting that managers should reflect on the cost and benefits of their existing local contexts, as they are likely to create value or capabilities useful for the next round of embeddedness. The ability of managers to minimise the challenges of embeddedness can increase the scope of the firm.

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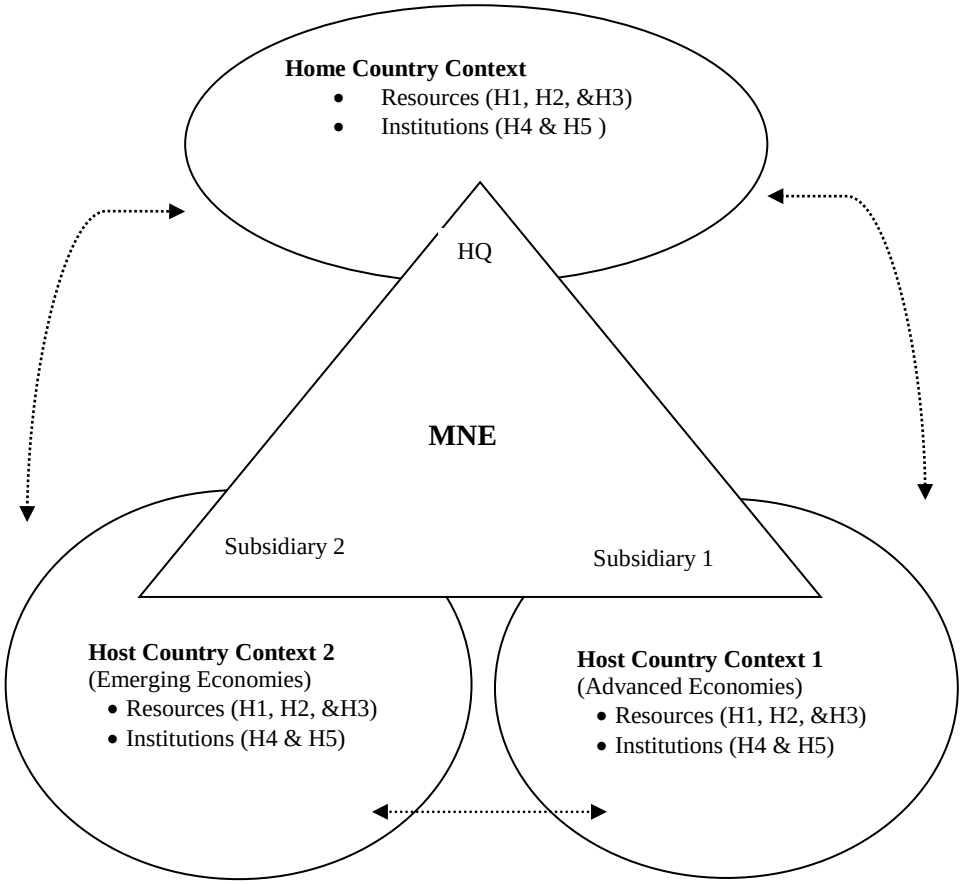
Figure 1: Multinational Enterprise and local Context



Source: Adapted from Meyer et al., 2011

Table 1: Variables and Data Sources

Dependent Variables			**Data Source**
Value of Foreign Acquisitions by Indian firms **(MAVal.)** (in US Million dollar) Number of Foreign Acquisitions by Indian firms **(MANo.)**			Thomson One Banker
Independent Variables	**Proxies**	**Expected Sign**	**Data Source**
Host Country Market **(Market Size)** **(Market Purchasing Power)** **Hypothesis 1**	GDP Per Capita GDP	+	World Bank Development Indicator
Natural Resource Endowment of Host Country (**Resources**) **Hypothesis 2**	Ratio of Ore and Metal Exports to Merchandise Exports of Host Country	+	World Bank Development Indicator
Endowment of Knowledge Based Asset of Host Country **(Knowledge)** **Hypothesis3**	Yearly Patent Registration by Residents in Host Country	+	World Intellectual Property Organisation
Political Risk **(PolRisk)** **Hypothesis 4**	Host country's political risk rating	_	International Country Risk Guide
Cultural Distance Index (**CultDist**) **Hypothesis 5**	Kogut and Singh CD Index	_	Kogut and Singh (1988)
Outward Investment Policy Liberalisation **(FDI Policy)** **(Control Variable)**	Equal to 0 for the period prior to 2005 and 1 for 2005 and post 2005	+	Reserve Bank of India
Direct Capital Flow **(InwardFDI)** **(Control Variable)**	Inward FDI in home country (in US Million dollar)	+	Department of Industrial Planning and Promotion
Domestic Capital Market **(Capital)** **(Control Variable)**	Bombay Stock Exchange Index	+	Bombay Stock Exchange
English Speaking Host Country **(Lang)** **(Control Variable)**	equal to 1 if English is an official or primary national language or national lingua franca, and 0 otherwise	+	Central Intelligence Agency (CIA) World Factbook 2008
Geographical Distance of Host country (**GeogDist)** **(Control Variable)**	Distance between the capitals of host and home country	_	Calculated using www.geobytes.com
Economy Openness of Host Country **(Openness)** **(Control Variable)**	Ratio of Foreign Trade to GDP	+	World Bank Development Indicator
Exchange Rate **(Forex)** **(Control Variable)**	Official annual average exchange rate against the US dollar	_	World Bank Development Indicator
Host Country Dummy (**Country Dummy)** **(Control Variable)**	Binary Code =1 for host country is advanced and 0 otherwise		

Table 2: Results

	MANo.	MAVal.	MANo.		MAVal.	
Explanatory Variables	**All Countries**	**All Countries**	**Emerging countries**	**Advanced countries**	**Emerging Countries**	**Advanced countries**
Market Size	0.081*** (0.029)	0.17* (0.091)	0.021 (0.025)	0.564*** (0.124)	-0.006 (0.099)	1.654*** (0.465)
Market Purchasing Power	0.123 (0.092)	0.067 (0.107)	0.053 (0.066)	1.538*** (0.559)	0.069 (0.103)	4.003** (1.887)
Resource	0.063 (0.061)	0.194 (0.135)	0.123** (0.058)	0.09 (0.158)	0.216* (0.134)	0.005 (0.582)
Knowledge	0.041** (0.018)	0.081 (0.053)	0.002 (0.016)	0.013 (0.038)	0.046 (0.051)	-0.141 (0.201)
PolRisk	-0.085 (0.151)	0.21 (0.366)	0.052 (0.162)	0.182 (0.28)	0.277 (0.405)	0.227 (0.827)
CultDist	-0.867*** (0.133)	-2.033*** (0.369)	-0.622*** (0.2)	-0.756*** (0.151)	-1.647*** (0.517)	-2.224*** (0.518)
InwardFDI	0.211 (0.276)	0.387 (0.916)	0.342 (0.334)	0.14 (0.312)	1.00 (1.111)	-0.848 (1.384)
Forex	-0.179*** (0.047)	-0.416*** (0.115)	-0.084* (0.044)	-0.15* (0.083)	-0.231* (0.122)	-0.427 (0.283)
Openness	-0.049 (0.03)	-0.046 (0.102)	-0.016 (0.041)	0.047* (0.028)	0.091 (0.148)	0.107 (0.138)
Lang	0.325* (0.17)	1.864*** (0.555)	0.687*** (0.233)	0.287 (0.207)	2.524*** (0.676)	1.358 (0.859)
Capital	1.127*** (0.335)	3.558*** (1.035)	1.12** (0.469)	0.889** (0.407)	2.563** (1.262)	3.61** (1.588)
Policy	-0.004 (0.32)	1.36 (1.159)	-0.368 (0.419)	0.325 (0.361)	0.096 (1.41)	3.606** (1.741)
GeoDist	0.155 (0.193)	0.319 (0.495)	-0.228 (0.175)	0.325 (0.442)	-0.013 (0.512)	0.104 (1.78)
Country Dummy	1.32*** (0.336)	2.77*** (0.933)				
Constant	-17.97*** (6.14)	-53.97*** (20.29)	-17.38*** (6.64)	-44.81*** (8.685)	-54.15** (24.35)	-100.36*** (35.52)
LogLiklihood F	-527.73*** 14.75***		-201.03***	- 268.67***	 5.14***	 11.37***
PsdoR^2 AdjR^2	17.73	 29.77	15.12	25.11	 16.88	 48.08
N	455	455	266	189	266	189

*** Significant at 1%; ** significant at 5%;*significant at 10%. Standard Error in parenthesis

Table 3: Descriptive Statistics and Variance Inflation Test

	Mean	Std. Dev.	VIF	Tolerance
MAVal.	81.14	709.78		
MANo.	1.22	4.44		
Market Purchasing Power	16098.05	12845.36	1.56	0.641
Market Size	$538x10^{9}$	$152x10^{10}$	1.49	0.671
Resources	6.14	12.02	1.29	0.775
Knowledge	11467.91	50314.11	1.67	0.599
Lang	0.54	0.49	1.16	0.862
FDI Policy	0.25	0.43	4.15	0.241
InwardFDI	$8.99x10^{9}$	$6.71 x10^{9}$	2.79	0.358
Forex	541.04	2177.64	1.36	0.735
PolRisk	6.93	1.18	2.15	0.465
CultDist	1.56	0.83	1.29	0.775
Openness	77.83	66.71	1.30	0.769
GeogDist	4129.10	2382.77	1.25	0.800
Capital	8315.12	5620.24	4.09	0.244