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HOW LATIN AMERICAN MULTINATIONAL COMPANIES' INSTITUTIONAL CAPABILITIES INFLUENCE OWNERSHIP IN CROSS-BORDER ACQUISITIONS

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ABSTRACT

Objective: Multinational Companies (MNCs) can learn from their experience in host countries and develop an ability to deal with specific institutional inefficiencies. We advance that MNCs' institutional capabilities, or the capabilities to deal with institutionally underdeveloped milieus, will likely lower the ownership requirements in subsequent deals. **Method:** Using regressions with a secondary dataset of 1,686 cross-border acquisitions (CBA) made by Latin American firms worldwide, we investigate how the MNCs' priorly-acquired capabilities of operating in countries with underdeveloped regulatory quality, less effective rule of law, and lower corruption control lower the ownership acquired in subsequent acquisition deals. **Main Results:** We show that MNCs with experiences with CBA in countries with poor institutional contexts learn how to work in those contexts. Hence, these MNCs build capabilities that make them more likely to take a lower ownership stake in future CBAs. **Relevance/ Originality:** There is still much to be understood regarding the extent to which the knowledge developed in one country could be extrapolated and used in another country with similar problems. We delve into this matter with an institution-based view. **Theoretical/ Methodological Contributions:** This study thus contributes to a better understanding of the effect of MNCs' institutional capabilities for operating in institutionally inefficient countries on the ownership stakes required.

INTRODUCTION

Multinational Companies (MNCs) face different institutional contexts as they internationalize, since countries are institutionally distinct (North, 1990). Hence, there will be information costs (Hymer, 1960) that MNCs will face when operating abroad. This institutional perspective shapes firms' strategies and poses difficulties and opportunities that MNCs will have to deal with in the nations they locate in (Peng, Sun, Pinkham, & Chen, 2009; Aguilera & Grøgaard, 2019). MNCs gather experience when performing acquisitions, and MNCs with greater acquisition experience will better leverage resources and capabilities (Eisenhardt & Martin, 2000; Falaster, Ferreira, & Li, 2021).

From a knowledge-based perspective, developing capabilities with experience has been extensively studied (Collins, Holcomb, Certo, Hitt, & Lester, 2009; Dikova, Sahib, & Witteloostuijn, 2010; Freixanet & Renart, 2020). On the one hand, learning capabili-

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ties are attributes resulting from the interaction of resources (Collins et al., 2009); on the other, experience has been shown to help MNCs deal with the unfamiliarity found in other countries (Eden & Miller, 2004; Santangelo & Phene, 2021). However, there is still much to be understood regarding the extent to which the knowledge developed in one country could be extrapolated and used in another country with similar problems.

The role of capabilities has been studied in International Business (IB) since their initial conceptualization. Several studies have explored the role of experience in international business as evidence of capability building (e.g., Luo & Peng, 1999; Uhlenbruck, 2004; Elango & Pattnaik, 2007; Qian & Delios, 2008). However, the knowledge linked specifically to the institutional contexts has been studied as a theme in IB (Lyles & Salk, 1996; Chetty, Eriksson, & Lindbergh, 2006; Javernick-Will & Levitt, 2009; Jackson & Deeg, 2019; Falaster et al., 2021). We propose that MNCs learn with their acquisitions in specific institutional contexts and build institutional knowledge, which will become institutional capabilities in subsequent investments. Based on institutional knowledge (Chetty et al., 2006; Deng, Jean, & Sinkovics, 2018; Falaster et al., 2021), we propose that MNCs develop a capability to process further deals and operate in foreign countries using their accumulated institutional knowledge of specific institutional facets. Our main argument is thus that MNCs with more institutional capabilities are more likely to choose a partial acquisition rather than a full acquisition in institutionally more inefficient countries.

Methodologically, we use data from Thomson-Reuters Mergers and Acquisitions database from all Latin American MNCs that performed any acquisition between 1985 and 2015. Our findings confirm that MNCs can learn from their acquisitions in specific institutional contexts. This learning is reflected in their structural choices regarding the level of ownership acquired in a cross-border acquisition (CBA). We show that MNCs with experiences with CBA in countries with poor institutional contexts learn how to work in those contexts. Hence, these MNCs build capabilities that make them more likely to take a lower ownership stake in future CBAs.

This study has the potential to bring two contributions to international business theory. First, we combine the concept of experience and capability development through acquisitions with institutional knowledge to get a perspective of acquisitions that increase institutional knowledge and the firm's capabilities for performing further acquisitions in similar contexts. Second, we contribute by analyzing the effects of capabilities in acquisitions by Latin American MNCs.

1. LITERATURE REVIEW

Acquisitions have been studied in IB and Strategy throughout the past four decades. In IB studies, MNCs must decide whether to build a greenfield project or acquire a firm in the target country when internationalizing. When the acquisition is the selected strategy, MNCs must determine the ownership or equity stake they will acquire (Hennart & Larimo, 1998; Pinto, Ferreira, Falaster, Fleury, & Fleury, 2017). Moreover, ownership choices are important (Demirbag, Glaister, & Tatoglu, 2007) because they determine the extent of control and risk an acquirer firm will have on the target firm. Higher ownership is linked to access to proprietary knowledge (Meyer & Estrin, 2001), more exposure in the host country (Henisz, 2000), more control over operations (Dikova & Van Witteloostuijn, 2007), and legitimacy-seeking behavior (Meyer, Ding, Li, & Zhang, 2014).

Hence, MNCs will prefer full ownership when they seek full control and avoid risks associated with having a partner (Chen & Hennart, 2002). On the other hand, partial acquisitions — involving varying degrees of ownership — are associated with riskier and culturally distant countries (Barkema & Vermeulen, 1998; Kostova et al., 2019) and industries.

1.1. Multinational companies' capabilities

In IB, capabilities have been used to explain many phenomena. Firm-level capabilities are widely studied to answer internationalization (McEvily & Zaheer, 1999) and performance questions (Kotabe, Srinivasan, & Aulakh, 2002). The very concept of the multinationality of the firm can leverage and grant access to capabilities that domestic firms do not possess, and these capabilities can leverage firm performance (Kotabe et al., 2002; Jackson & Deeg, 2019). MNCs can also internationalize to specific countries in search of capabilities (Luo & Tung, 2007). Hence, internationalization itself can be a source of capabilities.

Previous capabilities can, in addition, affect the mode firms choose to internationalize. MNCs with a history of acquisitions in a country will more likely select full ownership when acquiring firms in that country (Chen & Hennart, 2002). MNCs with capabilities for building alliances will also resort to these when building new partnerships in international ventures (Gulati, 1999; Rodrigues, Borini, Raziq, & Ferreira, 2021). Therefore, MNCs that make ties to the host country and the firms in the host country will later rely on these capability-generating ties to develop further internationalization to the specific country.

MNCs can further rely on networks to develop capabilities for internationalization. Especially, MNCs from emerging markets can use their parent companies and foreign networks (Elango & Pattnaik, 2007). MNCs that internationalize to geographical clusters can build networks with large bridging ties and develop ties to regional institutions, granting them access to information, ideas, and opportunities (McEvily & Zaheer, 1999; Parente, Rong, Geleilate, & Misati, 2019). The fact that a firm belongs to a network will give it access to knowledge that otherwise would be inaccessible (Gulati, 1999). Hence, MNCs can seek networks to build capabilities and leverage their internationalization strategy.

Firms that receive foreign investments (particularly as ownership) also build capabilities to deal with the local context (Jackson & Deeg, 2019). The case of Eastern European MNCs is characteristic. For instance, firms from the former Soviet Union states sought foreign capital and partnerships to leverage capabilities and to learn to become competitive (Filatotchev, Wright, Uhlenbruck, Tihanyi, & Hoskisson, 2003; Foss & Pedersen, 2019). On the other hand, foreign entrants can build joint ventures with local firms to surpass institutional barriers and acquire knowledge (Kotabe et al., 2002; Falaster et al., 2021). When ownership is divided between local and foreign owners, both can enjoy capability-building and knowledge-sharing benefits (Pinto et al., 2017).

Capabilities can grant a firm the possibility of leveraging resources that would otherwise be neglected. Resources such as institutional capital and managerial ties are important in internationalization. Still, MNCs need adaptive capabilities to use these resources efficiently in their internationalization process (Lu, Zhou, Bruton, & Li, 2010).

The idea is that MNCs can learn through their operations, absorbing knowledge from their environment, networks, partners, and competitors to acquire capabilities to work in the host country and be competitive (Parente et al., 2019). Cohen and Levinthal (1990) developed the concept of absorptive capacity to highlight the importance of a firm's capabilities of recognizing, assessing, and absorbing knowledge from the environment. Zahra and George (2002) refer to the recognition and acquisition of new knowledge, the potential capacity, and the processing and exploitation. Similarly, MNCs rely on adaptive capabilities (Lu et al., 2010) to overcome barriers encountered in foreign countries and cope with the institutional systems that reign in the host country (Chen & Hennart, 2002). These capabilities will also make MNCs better able to build ties and later use the knowledge obtained (McEvily & Zaheer, 1999).

1.2. The institutional environment of countries

The institutional context of host countries is key to IB. Countries are essentially different in their institutional context since institutions are the written laws and rules and the unwritten "rules of the game" operating in a country (North, 1990). Hence, MNCs must understand the institutional context when selecting strategies (Peng et al., 2009; Li, Wei, Cao, & Chen, 2021; Rodrigues, Vasconcellos, & Nunes, 2022). Furthermore, in international business, MNCs will have to cope with their institutional environment to operate (Peng et al., 2009).

MNCs need legitimacy to be accepted by the local social actors (Ashford & Gibbs, 1990). Legitimacy is the congruency between the organization and the actions expected by the social actors (Pfeffer & Salancik, 1978). Legitimacy-seeking behavior is very common and necessary for MNCs operating in foreign countries. This search for legitimacy can influence strategic choices (Pfeffer & Salancik, 1978) and the firm's general strategy. For instance, the pursuit of legitimacy may lead MNCs to partner with local firms (Meyer et al., 2014) instead of assuming a do-it-alone attitude. One of the key elements for obtaining legitimacy in the host countries is to partner locally (Dacin, Oliver, & Roy, 2007; Rodrigues et al., 2021).

Institutional knowledge is a concept that has been understudied in IB. It argues that MNCs can learn by operating and performing deals in institutional contexts, especially when the firm has experience in a diversity of countries (Chetty et al., 2006). In this paper, we build theory by expanding this discussion, arguing that institutional knowledge can sparkle institutional capabilities and assist in firm strategy in countries where the firm possesses institutional knowledge.

2. HYPOTHESES

The traditional theory predicts that MNCs operating in riskier and culturally distant countries would choose partial acquisitions (Barkema & Vermeulen, 1998; Falaster et al., 2021). However, the traditional view also predicts that MNCs with high acquisition capabilities would prefer to engage in full acquisitions rather than partial acquisitions to avoid the risks of partnership and opportunistic behaviors of partners because they already know how to operate in the country (Kotabe et al., 2002).

MNCs will likely seek partnerships through partial acquisitions when acquiring firms in institutionally underdeveloped countries for two reasons. MNCs will seek legitimacy when operating overseas (Meyer et al., 2014), for which a local partner may be valuable (Dacin et al., 2007). MNCs with capabilities regarding the institutional context they are entering will find it more suitable to leverage resources and capabilities through entering with partners than to choose full ownership. In contrast, MNCs that do not possess capabilities in the institutional context will choose full acquisitions because of possible risks associated with having a partner (Chen & Hennart, 2002).

MNCs can learn through acquisitions (Barkema & Vermeulen, 1998; Falaster et al., 2021) and by dealing with a country's institutional environment. The capabilities developed by acting in underdeveloped institutional contexts will influence the future acquisitions undertaken in underdeveloped institutional contexts. We argue that MNCs with acquisition capabilities in underdeveloped countries will perceive the benefits that a partner can provide in these countries. These MNCs will also possess the capabilities to leverage this partnership to access more networks and resources. Hence, MNCs with institutional capabilities will choose lower ownership when internationalizing to underdeveloped countries.

Regulatory quality is a partial measurement of the quality of a country's institutional context. Regulatory quality is the capacity of the government to formulate and implement policies (Cuervo-Cazurra & Genc, 2008). It also measures the incidence of market-unfriendly policies (Dikova & Van Witteloostuijn, 2007). Higher regulatory quality is associated with less corruption, better economic outcomes, and improved social outcomes. Many factors contribute to a country's regulatory quality. These include the quality of the civil service, the independence of the judiciary, the rule of law, and the extent of government intervention in the economy. Multinationals with more experience in countries with poor regulatory quality will be more capable of dealing with a poor regulatory quality and learning from local partners. Hence, they will more likely choose a partner to build ties and leverage these capabilities, gathering more local knowledge and utilizing the knowledge developed abroad. This occurrence is likely to be the case as multinationals tend to understand the regulatory environment better and be better equipped to navigate the regulatory environment in countries with underdeveloped regulatory quality. This possible evidence will probably lead to lower ownership acquired by multinationals in subsequent CBAs in these countries.

Hypothesis 1: Multinationals' institutional capability of dealing in countries with underdeveloped regulatory quality is negatively related to the ownership acquired in subsequent CBAs in countries with inefficient regulatory quality.

The rule of law refers to how well the law is applied in a country. It is a measure of the extent to which agents know and can rely on the predictable behavior of others in their business dealings (Cuervo-Cazurra & Genc, 2008). This indicator captures the quality of the judiciary, the police, and the legal system. It accounts for the quality of contract enforcement, police, courts, and the punishment of general crime (Dikova & Van Witteloostuijn, 2007), and reflects the respect of the state and its citizens for the formal institutions (Cuervo-Cazurra & Genc, 2008). Multinationals with more experience in countries with a poor rule of law will have more capabilities to deal with the flawed rule of law and learn from local partners in these contexts. Therefore, multinationals' institutional capability is likely to lower the ownership acquired in subsequent CBAs in countries with inefficient rule of law.

Hypothesis 2: Multinationals' institutional capability of dealing in countries with an underdeveloped rule of law is negatively related to the ownership acquired in subsequent CBAs in countries with an inefficient rule of law.

Corruption refers to the use of power detained by government officials for private gain (Cuervo-Cazurra & Genc, 2008). Corruption control measures the government's efficiency in inhibiting the exercise of public power for personal gain (Dikova & Van Witteloostuijn, 2007). Alternatively, stated differently, it is the government's ability to deter corruption. Corruption may induce several hazards and additional costs for MNCs. For instance, it may lead to the poor allocation of resources, as these are channeled to less efficient and productive projects or firms. Multinationals with a good institutional capability to deal in countries with underdeveloped corruption control are likely to acquire lower ownership in subsequent CBAs in countries with inefficient corruption control. The rationale for this hypothesis is that multinationals with the ability and willingness to operate and seek a partner in difficult environments, such as those with high levels of corruption, are more efficient and have better outcomes than those who do not. This evidence would be evident by the amount of ownership they acquire during their CBA in these countries. Therefore, it is expected that multinationals will have lower ownership when they enter their following CBA in countries where corruption control is inefficient.

Hypothesis 3: Multinationals' institutional capability of dealing in countries with underdeveloped corruption control is negatively related to the ownership acquired in subsequent CBAs in countries with inefficient corruption control.

3. METHOD

In this study, we examine how the MNCs' institutional capabilities for conducting acquisitions in less developed institutional environments and operating in those countries are likely to determine the ownership acquired in subsequent acquisitions in countries with underdeveloped institutional environments. The hypotheses were tested using data on cross-border acquisitions completed by Latin American MNCs between 1985 and 2015, collected from the Thomson-Reuters Mergers and Acquisitions database. To characterize the extent of (under)development of the host countries, we collected data from the World Governance Indicators (WGI). These measure the quality of a country's institutional framework and have been widely used in IB research (e.g., Dikova & Van Witteloostuijn, 2007; Cuervo-Cazurra & Genc, 2008; Slangen & Beugelsdijk, 2010).

Using Latin American MNCs as a base of analysis for CBAs is important in our study because most Latin American institutional environments have a middle level of development, so there would be acquisitions in more developed and less developed contexts. Examining CBAs from Latin American countries is adequate for two main reasons. First, Latin America presents a milieu of institutional environments that are heterogeneously developed across countries and pose an array of inefficiencies and uncertainties in the home country that these MNCs have to deal with (Pinto et al., 2017). Second, research on Latin American companies has been relatively scarce compared to studies on developed countries and other emerging economies. In other emerging countries, such as China, the economic structure is still largely dependent on governmental interference, in contrast to more market-oriented Latin American companies.

3.1. Sample

We used Thomson-Reuters Mergers and Acquisitions database to compose a set of 1,687 acquisitions. In selecting the sample, we followed some procedures. First, we selected only the deals in which the acquirer firms were from Latin American countries (with headquarters in Latin America). Second, we input the criteria that all deals needed to be cross-border, which means we did not include the acquisitions performed inside the home country in our sample (that is, we excluded domestic acquisitions). Third, we included only completed deals between 1985 and 2015, thus excluding acquisitions classified as rumors, withdrawn, or whose status was stated as incomplete in the database. A lapse of thirty years is relevant because it is possible to aggregate a period when globalization has intensified. Fourth, we excluded deals involving target countries considered Tax havens, thus avoiding capturing *round-tripping*.

Table 1 summarizes the sample, showing the home and host countries and the percentage of home and host country acquisitions that involved minority and majority ownership.

In our sample, the largest acquirer countries were Mexico, Brazil, and Chile. The countries where Latin American MNCs conducted higher CBAs were the United States, Argentina, and Brazil. Although several CBAs had Latin American countries as hosts, it is noticeable that North America and Europe were the more often selected destinations. Moreover, it is worth noting that most CBAs involved acquiring a controlling ownership stake (76.7%) of 51% or more of the equity on the target. In this table, we do not show host countries with 20 or fewer CBAs, but they are included in the sample and used for the computations — such as Italy (20), Germany (19), Bolivia (18), and Guatemala (17).

3.2. Variables

For our dependent variable, we measured ownership as the percentage of equity acquired, following Chari and Chang (2009) and Chen and Hennart (2004). Of the equity acquired, 1 to 100% is adequate because it captures more nuances than dichotomous variables (Gaffney, Karst, & Clampit, 2016), such as partial and full CBAs.

3.3. Independent variables

We built our three independent variables to capture the experience that the MNC has regarding

Table 1. Sample: Home and host countries.

Acquisitions by home country	n. of CBAs	% of minority CBAs	% of majority CBAs	Acquisitions by the host country	n. of CBAs	% of minority CBAs	% of majority CBAs
Mexico	459	21.35	78.65	United States	310	22.58	77.42
Brazil	390	23.08	76.92	Argentina	194	28.87	71.13
Chile	225	26.67	73.33	Brazil	136	15.44	84.56
Argentina	187	26.20	73.80	Chile	112	22.32	77.68
Colombia	170	15.29	84.71	Colombia	111	14.41	85.59
Peru	88	22.73	77.27	Peru	93	26.88	73.12
Venezuela	62	30.65	69.35	Spain	87	27.59	72.41
Uruguay	30	33.33	66.67	Canada	65	40	60
Trinidad & Tobago	19	52.63	47.37	Uruguay	62	16.13	83.87
Ecuador	17	29.41	70.59	Mexico	59	18.64	81.36
Guatemala	11	18.18	81.82	Panama	41	4.88	95.12
Bolivia	8	12.50	87.50	Ecuador	40	20	80
El Salvador	7	14.29	85.71	Venezuela	28	25	75
Dominican Rep.	5	40	60	United Kingdom	25	12	88
Honduras	4	0	100	Portugal	23	65.22	34.78
Cuba	2	0	100	France	23	39.13	60.87
Guyana	2	0	100	El Salvador	21	9.52	90.48
Paraguay	1	0	100	Other countries	257	29.58	70.42
Total	1,687	23.30	76.70	Total	1,687	23.30	76.70

CBA: cross-border acquisition.

specific institutional inefficiencies in the host countries, using the data made publicly available in the WGI (Kaufmann, Kraay, & Mastruzzi, 2016). The WGI uses a linear scale ranging from -1.5 to 1.5 for each variable. We computed our independent variables as follows: *international experience in countries of underdeveloped corruption control*, counting the number of MNCs' prior CBAs in countries with underdeveloped corruption control. Similarly, we followed an identical procedure to compute the MNCs' *international experience in countries of underdeveloped regulatory quality* by counting the prior CBAs in countries that had underdeveloped regulatory quality, and the *international experience in countries of underdeveloped rule of law*, by counting the number of past CBAs in countries that had the underdeveloped rule of law. We classified host countries' rule of law, regulatory quality, and corruption control as developed or underdeveloped based on the world's mean. Indexes lower than zero are below the world mean and are classified as underdeveloped, and higher than zero are more elevated than the world mean and are classified as developed.

3.4. Control variables

We included several control variables at the firm, industry, and country levels. At the firm level, we controlled for the *industry-relatedness* of the firms in the CBA because related acquisitions could inspire less risky investments than unrelated ones. The relatedness was coded as 1 for related and 0 for unrelated, using data from the Thomson Reuters M&A database. Although this database is fairly complete, it is far less clarifying in providing details of the firms outside North America and some European countries. At the industry level, we controlled the *acquirer firm industry* and the *target firm industry* using dummy variables for the primary 2-digit standard industrial classification (SIC) code of the acquirer and target firm. This control absorbs variations related to specific industries. Data on the acquirer and target SIC codes are available in the Thomson-Reuters M&A database.

At the country level, we controlled for the size of the target country's economy using the *target country's gross domestic product (GDP)* and the *target country's gross national income (GNI) per capita* since countries with larger economies represent larger markets that can leverage sales and have more competitors. We also controlled for the *host country's GDP growth* because the economy's growth may influence ownership because of the opportunities managers see in the host country when deciding on the CBA. We controlled for the *host country's taxation* using the average tax in commercial profits collected from the World Bank. The taxation makes operations costly in the host country and will likely diminish the ownership acquired. We have also used the year of the acquisition as a control to account for the general development in the world economy and connectedness or other events. Given that developed countries propose a list of benefits in resource-seeking behavior and are considered less risky investments, we controlled for the *target country development* considering countries of the Organisation for Economic Co-operation and Development (OECD) as developed countries, coded as 1 for OECD membership and 0 for non-OECD.

Finally, we included a control variable for the specific home country's institutional factor being tested. For instance, in the test using international experience in an underdeveloped rule of law as an independent variable, we used the home country's rule of law from WGI to control the home country's extent of development relative to the rule of law.

4. RESULTS

In Table 2, we depict the descriptive statistics and correlations. As expected, there are a few high correlations between the independent variables, given that the institutional (in)efficiencies tend to evolve in tandem. For instance, countries with poor regulatory quality are also likely to have inefficient control of corruption mechanisms and less the effective rule of law. Conversely, countries with better institutional systems have good scores in most WGI dimensions. Given the high correlations, we run the models separately.

The tests of the hypotheses are shown in Table 3. Model 1 includes only the control variables. Model 2 tests H1. This model proposes that MNCs with greater experience in countries with underdeveloped regulatory quality would likely undertake a lower ownership stake in a focal CBA in countries with underdeveloped regulatory quality. Model 2 is tested using the CBAs in host countries classified as having an underdeveloped

Table 2. Descriptive statistics and correlations.

		Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12
1	Int'l experience in countries of underdeveloped regulatory quality	1.399	1.150	1.000											
2	Int'l experience in countries with an underdeveloped rule of law	1.922	2.382	0.781**	1.000										
3	Int'l experience in countries with underdeveloped corruption control	1.861	2.212	0.790**	0.967**	1.000									
4	Target country GDP growth	3.175	3.334	0.026	0.055*	0.066**	1.000								
5	Target country's total GDP	2.85E+12	5.00E+12	-0.133**	-0.137**	-0.143**	-0.313**	1.000							
6	Target country GNI *per capita*	18,888.322	18,072.757	-0.192**	-0.252**	-0.240**	-0.354**	0.775**	1.000						
7	Target country taxation	55.534	25.195	0.061*	0.122**	0.113**	-0.033	0.102**	-0.189**	1.000					
8	Target country is developed	0.480	0.500	-0.222**	-0.275**	-0.268**	-0.303**	0.631**	0.752**	-0.381**	1.000				
9	Industry relatedness	0.600	0.490	0.139**	0.155**	0.158**	0.041	-0.072**	-0.108**	0.019	-0.100**	1.000			
10	Acquirer country regulatory quality	0.297	0.629	0.066**	0.030	0.032	0.010	-0.006	-0.053*	0.062*	-0.104**	0.079**	1.000		
11	Acquirer country rule of law	-0.227	0.672	0.045	0.031	0.026	-0.006	-0.025	-0.018	0.103**	-0.093**	0.038	0.539**	1.000	
12	Acquirer country corruption control	-0.052	0.665	0.062*	0.018	0.023	0.026	-0.036	-0.067**	0.152**	-0.098**	0.041	0.424**	0.797**	1.000
13	% ownership acquired	72.808	33.546	-0.054*	-,047	-0.055*	-0.029	0.085**	0.106**	-0.026	0.051*	0.074**	-0.046	-0.038	-0.49*

GDP: gross domestic product; GNI: gross national income.

Table 3. Regression results[#].

	Model 1		Model 2		Model 3		Model 4	
			Targets in countries with poor regulatory quality		Targets in countries with a poor rule of law		Targets in countries with poor control of corruption	
Int'l experience in countries with underdeveloped regulatory quality			-0.212	**				
Int'l experience in countries with an underdeveloped rule of law					-0,093	*		
Int'l experience in countries with underdeveloped corruption control							-0,115	**
Target country GDP growth	-0.060	*	-0.105		-0,078	†	-0,077	†
Target country GDP	0.064	†	0.042		-0,009		-0,011	
Target country GNI *per capita*	0.046		-0.041		0,020		0,000	
Target country taxation	-0.090	**	-0.109		-0,108	*	-0,081	†
Target country is developed	-0.056		0.044		0,006		0,037	
Industry relatedness	0.020		-0.055		-0,021		-0,041	
Acquirer country regulatory quality			0.018					
Acquirer country rule of law					-0,125	**		
Acquirer country corruption control							-0,12	**
Year of the CBA	Yes		Yes		Yes		Yes	
Target firm industry (2-digit SIC)	Yes		Yes		Yes		Yes	
Acquirer firm industry (2-digit SIC)	Yes		Yes		Yes		Yes	
Sum of squares	426,918		190,911		268,070		274,861	
R^2	0.139		0.238		0.159		0.166	
N	1,687		347		820		800	

GDP: gross domestic product; GNI: gross national income; CBA: cross-border acquisition; SIC: standard industrial classification.
[#]Dependent variable is the percentage of ownership acquired in the cross-border acquisition; †p< 0.1; *p< 0.05; **p< 0.01; ***p< 0.001.
Source: Authors' computations with data collected from Thomson Reuters M&A database.

regulatory quality (347 CBAs). A negative and statistically significant coefficient (β=-0.212, p< 0.01) confirms that holding an institutional capability to operate in countries with lower regulatory quality also lowers the ownership stake sought after in a subsequent CBA.

Model 3 tests H2, proposing that MNCs' prior experience in countries with an underdeveloped rule of law will acquire a lower ownership stake in countries with a poorer rule of law. The model only uses acquisition data in countries with flawed rule of law (820 CBAs). Results indicate the confirmation of the hypothesis, as there is a negative and significant effect between the experience variable and ownership acquired (β=--0.093, p< 0.05).

Model 4 tests H3 that MNCs with prior experience in countries with underdeveloped corruption control will tend to acquire a lower ownership stake in CBAs in countries with poorer corruption control. The model uses only acquisition data in countries with poor corruption control (800 CBAs). Results were similar to the ones in our previous hypothesis, showing a negative and significant effect (β=--0.115, p< 0.01).

Overall, the findings confirmed that MNCs engage in lower equity ownership acquired in their CBAs when they have developed an institutional capability of dealing with and operating in similar institutional contexts. MNCs learn, through their experiences, how to adapt and navigate an institutional environment.

Part of that learning is expressed in their value on partnerships, which means whether they will engage in full, majority, or minority acquisitions. Each structural solution corresponds to a strategic response to the challenges they will face and the importance of maintaining a local partner to help them overcome the hazards and extra costs of operation and the legitimation they need locally.

5. DISCUSSION AND CONCLUDING REMARKS

In this study, we investigated the possibility that MNCs can learn from prior experiences and specifically build a capability for dealing with at least specific dimensions of the institutional environments they encounter in foreign countries. We have called these institutional capabilities to express that they are acquired cumulatively through learning about the institutional milieus and how to better act in response. We argued that MNCs with knowledge in these specific contexts would understand the need for partnerships in acquisitions due to the adverse institutional environments. Hence, these MNCs will choose to have partners, acquiring only a small percentage of the target firm's shares. Through their capabilities developed in previous acquisitions in the institutionally underdeveloped environment, MNCs perceive the need for partners and develop capabilities to leverage partnerships and networks built by partial acquisitions and to achieve legitimacy through these partnerships.

We have tested our arguments by focusing on three institutional facets that are often encountered in countries with more underdeveloped or more inefficient institutional environments: regulatory quality, the rule of law, and control of corruption. The findings suggest that regulatory quality, the rule of law, and corruption control all significantly affect the extent to which MNCs learn and build capabilities through their cross-border acquisitions. We found support for the hypotheses and the idea that MNCs accumulate an institutional capability that changes how they structure the deals (at least the acquisition transactions) in foreign countries. Specifically, our findings are important because they confirmed that MNCs with experience performing cross-border acquisitions in institutionally underdeveloped countries would rather choose for lesser ownership in their subsequent acquisitions in underdeveloped institutional environments.

This paper contributes in two ways to IB and global strategy literature and theory. First, we bring forth the role and effect of MNCs accumulating institutional knowledge on CBAs and ownership. We provide some evidence that MNCs learn from their prior experiences in foreign institutional environments and use this knowledge in their subsequent strategies and structural choices. We thus contribute to the idea that MNCs may develop an institutional capability, building upon existing works on knowledge and learning.

We also contribute to the study on multilatinas, or Latin American multinationals, using them as our research object and providing evidence that these MNCs can learn from the institutional environments they internationalize. That is interesting as it reinforces the argument that multilatinas may also have a knowledge-seeking motivation.

From a managerial perspective, our study shows that MNCs can learn and build capabilities in specific institutional contexts, which should be considered when planning cross-border acquisitions. Managers must know the potential advantages of partnerships (e.g., access to new markets, technology transfer, etc.) and the need for legitimacy in these transactions.

To conclude, the development of acquisition capabilities is a theme in the IB/global strategy literature that has been put forth but lacks empirical applications and further theorizing. As MNCs build knowledge about specific institutional systems, they can transform this knowledge into a valuable capability for entering and operating in other foreign institutional contexts. This transformation contributes to research regarding the institutional-based view (Peng et al., 2009) and location choice (Aguilera & Grogaard, 2019), since the knowledge about specific institutional contexts can shape MNCs' decisions about where and how to internationalize.

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COMO AS CAPACIDADES INSTITUCIONAIS DAS MULTINACIONAIS DA AMÉRICA LATINA INFLUENCIAM A PROPRIEDADE NAS AQUISIÇÕES INTERNACIONAIS

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RESUMO

Objetivo: Empresas multinacionais (EMN) podem aprender com sua experiência nos países anfitriões e desenvolver uma habilidade para lidar com ineficiências institucionais específicas. Propomos que as capacidades institucionais das multinacionais, ou as capacidades para lidar com ambientes institucionalmente subdesenvolvidos, provavelmente reduzirão os requisitos de propriedade em negócios subsequentes. **Método:** Usando regressões com um conjunto de dados secundário de 1.686 aquisições transfronteiriças feitas por empresas latino-americanas em todo o mundo, investigamos como as capacidades previamente adquiridas das multinacionais para operar em países com qualidade regulatória subdesenvolvida, estado de direito menos efetivo e menor controle de corrupção reduzem a propriedade adquirida em acordos de aquisição subsequentes. **Principais Resultados:** Mostramos que multinacionais com experiência em aquisições transfronteiriças (CBA) em países com contextos institucionais fracos aprendem a trabalhar nesses contextos institucionais. Assim, essas multinacionais constroem capacidades que as tornam mais propensas a assumir uma participação acionária menor em futuras CBA. **Relevância/ Originalidade:** Ainda há muito a ser entendido sobre até que ponto o conhecimento desenvolvido em um país pode ser extrapolado e utilizado em outro país com problemas semelhantes. Aprofundamos esse assunto com uma visão institucional. **Contribuições Teóricas/ Metodológicas:** Este estudo contribui para melhor compreensão do efeito das capacidades institucionais nas participações acionárias.

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