Ownership Choice in Cross-Border Acquisitions of Chinese versus U.S. Digital MNEs

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ABSTRACT

MNEs typically face challenges to overcome liability of foreignness and to mitigate the impact of institutional and cultural distances. MNEs are probably willing to accept uncertainty stemming from institutional distance and cultural distance in larger markets. Theoretically, the internationalization process approach tends to take incremental stages to go overseas; so is the entry mode changed to more equity involvement. This approach has been revised for digital MNEs’ expansion, particularly via international acquisitions. In practice, the degree of equity ownership choice is even complicated when dealing with location factor in the newly emerging markets with large growing population of Internet and mobile penetration. In this study, we want to understand how institutional distance and target market size differently influence the ownership choices of Chinese and U.S. digital MNEs involved in cross-border acquisitions.

Our findings suggest that cultural distance and formal institutional distance reduce the degree of equity ownership, whereas target market size increases it. We also find that the digital MNEs reveal stronger market size effects than the cultural distance effects. Unlike traditional views our findings suggest that the effect of market size plays a more prominent role than that of institutional distance. The study made contributions to expand traditional internationalization theory to specific new firms, namely digital MNEs.

Keywords: Digital MNEs; Ownership Choice; Cross-border Acquisitions; Institutional Distance

INTRODUCTION

Digital multinational enterprises (MNEs), such as Internet platforms, e-commerce, digital solutions and digital content firms, are expanding at a dramatically faster rate than other multinationals. Total foreign earnings retained abroad by digital MNEs from the U.S. grew faster, at an average annual rate of 28 % between 2010 and 2015, against 8% for other MNEs (UNCTAD, 2017). To exploit these trends, many well-known U.S. digital MNEs such as Yahoo!, PayPal, Amazon, and Microsoft, among others, have already entered host country through the cross-border acquisition. Besides, China's counterparts of digital MNEs such as Baidu, Alipay, Alibaba, and Tencent have participated in cross-border acquisition. Overall, the pattern of digital Chinese MNEs’ acquisitive behaviors has seen a shift towards acquisitions of companies outside of China.

Theoretically, MNEs typically face challenges to overcome liability of foreignness and to mitigate the impact of institutional and cultural distances. The internationalization process approach tends to take incremental stages to go overseas; so is the entry mode changed to more equity involvement. This approach has been revised for digital MNEs’ expansion, particularly via international acquisitions.
Traditionally institutional distance and cultural distance have been important factors influencing the entry mode choice, yet insufficient factors for explaining international expansion (Kostova et al., 2008; Tihanyi, Griffith et al., 2005). The existing institutional approaches alone cannot fully explain foreign market entry mode choice. However, digital MNEs, as opposed to MNEs, have specific characteristics that are likely to focus on consumer spending power rather than other FDI motivations (e.g. low labor costs). Managers probably are suggested to be more willing to accept uncertainty stemming from institutional distance in larger markets (Rothaermel & Steensma, 2006). Currently, more authors believe that larger market size leads to enhance resource commitment in internalization firms and MNEs expand into countries with a larger market size. (Johanson & Vahlne 1977; Erramilli et al., 1997)

Closing this gap, we test statistically how institutional distance and target market size differently influence the ownership choices of digital MNEs involved in cross-border acquisitions. Therefore, we follow UNCTAD (2017) to define digital MNEs as Internet platforms, e-commerce, digital solutions and digital content firms. Our study was based on 512 acquisitions between 2010 and 2017, using data from Securities Data Company (SDC).

THEORY FOUNDATION AND RESEARCH HYPOTHESES

To investigate the foreign equity ownership decisions of digital MNEs, we use the synthesis framework including institutional distance and market size to understand which the main factor is influencing the degree of equity ownership in cross-border acquisitions undertaken by digital MNEs. Our theoretical presupposition is that international market entry decisions by digital MNEs are based on balancing costs and benefits in the foreign target market. We claim that institutional distance or cultural distance bring a negative direct effect on the degree of equity ownership in cross-border acquisitions. In contrast, we hypothesize that market size has been seemingly realized a positive effects as opportunities.

In particular, we tested statistically to understand how formal institutional distance, cultural distance, and market size differently influence the degree of equity ownership in cross-border acquisitions undertaken by the digital MNEs. Additionally, we also investigate the moderating effect of target market size on the link between institutional distance and the ownership choices of digital MNEs in cross-border acquisitions. This aspect has been discussed less in past research. Figure 1 depicts the theoretical framework.

![Figure 1: Theoretical Framework](image-url)
Home country comparative advantages and degree of equity ownership in cross-border acquisitions

U.S. and emerging economies’ MNEs have different speed of internationalization competitive advantages, political capability and organizational adaptability. U.S. MNEs are maybe superior to their Chinese counterparts in holding relative leadership in the internationalization of firm-specific assets (such as marketing and R&D). Firm-specific advantages are often due to the country-specific advantages of the firm's home country and may give the MNEs bargaining power over the host country. The stronger the internalization advantages for the firm, the greater will be its desire to use FDI as the mode of its international activity and the greater its desire to retain ownership in its subsidiary abroad to appropriate the return earned on these advantages. (Lecraw,1984; Guillen & Garcia-Canal, 2009)

Erramilli et al (1997) has found that U.S. MNEs derive ownership advantages from their size, experience, technological and marketing superiority, and many U.S. MNEs generate unique skills that give them absolute advantage over firms in almost all foreign host locations. But developing country MNEs do not have absolute ownership advantages similar to those of the U.S. firms. Hence, U.S. digital MNEs are maybe superior to their Chinese counterparts in holding relative leadership in the internationalization of firm-specific advantages. Therefore, we expect that Chinese MNEs prefer to acquire a lower level of control compared to U.S. MNEs.

**Hypothesis 1 (H1):** In cross border acquisitions, Chinese MNEs will acquire a lower degree of equity ownership of market entry than U.S. digital MNEs.

Cultural distance and degree of equity ownership in cross-border acquisitions

When predicting international market entry, we consider the four national cultural dimensions identified by Hofstede (1980): uncertainty avoidance, individualism, masculinity, and power distance. Kogut and Singh (1988) suggest that the greater the cultural differences between the home country and the target country, the greater the perceived uncertainty of doing business in that country and, therefore, the more likely market entry through a joint venture. In short, past studies provide evidence that cultural distance between a home and a host country can significantly influence the internationalization process.

As discussed previously, empirical results on the relationship between cultural distance and equity participation have been ambiguous. Chari and Chang (2009) found empirical evidence for a low equity entry mode in culturally distant host countries. However, Erramilli et al. (1997) supported the positive relationship between cultural distance and high equity entry modes.

Erramilli (1996) supports this prediction by stating that uncertainty-avoiding cultures are populated by individuals with high anxiety levels. These cultures seek to avoid future uncertainty by avoiding less controllable entry modes. Digital MNEs operating in international markets that are culturally different from their home market environments are likely to face higher levels of cost uncertainty. Thus, we argue that cultural distance brings a negative direct effect on the degree of equity ownership in cross-border acquisitions and hence, our hypothesis 2 states as follows:

**Hypothesis 2(H2):** The greater the cultural distance between the home country and the international target country, the lower the degree of equity ownership of market entry by digital MNEs.

Formal institutional distance and degree of equity ownership in cross-border acquisitions

Theoretically, MNEs typically face challenges to overcome liability of foreignness(LOF) and to mitigate the impact of institutional distances. The key factor of LOF is the institutional distance (cognitive, normative, and regulatory), and MNEs may probably select the ownership strategy minimizing the costs of doing business abroad. These costs are sourced from liability of foreignness. Therefore, the
greater the institutional distance is, the more likely the MNE to select low-equity ownership strategy, particularly regulatory distance (Eden & Miller, 2004).

It is likely that the choice of equity ownership structure is regarded as the result of MNEs preference for minimizing cost (Brouthers & Nakos, 2004; Anderson & Gatignon, 1986) Combining these arguments, it seems reasonable to expect institutional distance, which represents overcoming LOF and minimizing the costs of institutional distances between the host and home institutional environment. We argue that institutional distance brings a negative direct effect on the degree of equity ownership in cross-border acquisitions.

**Hypothesis 3 (H3):** The greater formal institutional distance between U.S./China and the international target country, the lower degree of equity ownership of market entry by U.S./Chinese digital MNEs.

**Market size and degree of equity ownership in cross-border acquisitions**

Most authors argue that larger market size leads to enhance resource commitment in internalization (Johanson & Vahlne 1977; Erramilli et al., 1997). Erramilli (1991) suggested the influence of external and internal factors on service firms' choice of entry mode was studied and concluded that service firms tended to use higher-control entry modes the larger the foreign market size and the greater the unavailability of host country suitable partners and the firm's corporate policy on keeping control of operations.

However, digital MNEs, as opposed to MNEs, have specific characteristics that are likely to focus on consumer spending power rather than other FDI motivations (e.g. low labor costs). We suggest that digital MNEs are more likely to enter countries that exhibit a risk profile and are culturally distant to the U.S. and China when these markets are larger. Although the risk and uncertainty in these larger markets are the same as in smaller markets with the same risk and uncertainty profile, managers of digital MNEs are hypothesized to accept this level of risk and uncertainty in large-size markets.

In particular, Erramilli (1991) and Johanson & Vahlne (1977) also suggest that firms expand into countries with a larger market size. Managers are claimed to be more willing to accept uncertainty stemming for mal institutional distance or cultural distance in larger markets. Larger markets offer more opportunities, therefore more incentives for firms to invest and mitigate the costs in the uncertainty stemming from institutional distance. Moreover, larger markets generally provide a more open environment that allows more companies to coexist (Rothaermel & Steensma, 2006). We state that international market entry decisions are based on balancing costs and benefits from a foreign target market. Although the risk and uncertainty in these larger markets are the same as in smaller markets, managers of Chinese digital MNEs are hypothesized to accept the same level of risk and uncertainty in large-size markets.

We argue that the size of the international target market seems to have positive direct and indirect effect on the degree of equity ownership undertaken by digital MNEs. Unlike traditional views, that is, since most of the digital MNEs, enabled by the Internet and modern transportation, can export goods/services worldwide easily, we suggest that the effect of market size plays a more prominent role than that of cultural distance (informal institutional distance). Furthermore, we expect that the market size moderates the relationship between institutional distance and the degree of equity ownership of market entry. Our hypothesis is as follows.

**Hypothesis 4 (H4):** The greater the market size in the international target country, the higher the degree of equity ownership of Chinese/U.S. digital MNEs.
Hypothesis 5(H5): The effect of market size is higher than the effect of cultural distance on the degree of equity ownership of digital MNEs.

Hypothesis 6(H6): The market size moderates the negative relationship between institutional distance and the degree of equity ownership of market entry by Chinese digital MNEs.

METHOD

Sample
In order to find variables that could affect holding rate of acquirer in overseas merger cases, we searched and collected overseas acquisition data of U.S. and Chinese companies from 2008 to 2017 from SDC Platinum as Table 1. Among 512 samples for our survey, 430 are the number of overseas acquisition cases from U.S. companies and Chinese companies is 82. The value of deals ranges from 0.6-85 million USD.

Operationalization of variables
1. Dependent variable
   The dependent variable is degree of equity ownership in cross-border acquisitions undertaken by the digital MNEs. The degree of equity ownership is the dummy variable of shareholding ratio of acquirer after the merger. We set a sample mean 91.30%, as the standard. If the degree of equity ownership is over 91.30%, dummy variable is equal to 1; Otherwise a lower percentage it equals 0.

2. Independent Variables
   We hypothesized that the level of uncertainty faced by internationally expanding U.S. and Chinese companies is determined primarily from three sources: the foreign target market size, the cultural and formal institutional distance between the U.S., China and the international target country.

   Market size is measured as 2015 GNI (Gross National Income) per capita (PPP) data announced by World Bank. In this survey, we change the unit of GNI into thousands of USD and set a sample average of 42.469 thousands of USD as a standard of wealth. Countries with GNI Per Capita over 42.469 thousands of USD are defined as wealthy countries, with dummy variable equal to 1, for lower GNI it is equal to 0.

   Cultural distance is followed the procedure outlined by Kogut and Singh (1988). First, we created a distance score for each of Hofstede’s (1980) four cultural dimensions from the U.S.’ or China ranking for all 39 international target countries in the sample. Second, we calculated a composite score for each country’s overall cultural distance from the U.S. or China by taking an arithmetic average of the four cultural deviation scores obtained as follows:

   \[ CD_j = \sum_{k=1}^{n} \frac{(I_{kj} - \bar{I}_{k})^2 / V_k}{n} \]

   where Ikj stands for the index for the kth cultural dimension and jth country, V_k is the variance of the index of kth dimension, n stands for numbers of dimension and CDj is cultural distance difference of the jth country from the U.S. or China. Cultural distance dummy is set sample mean 1.42 as the standard. If cultural distance is bigger than 1.42, it shows significant cultural difference between countries. In this situation, dummy variable equals 1; lower than 1.42 equals 0.

   Formal Institutional distance is measured by six dimensions identified by Kaufmann, Kraay, and Mastruzzi (2006): voice and accountability; political stability and absence of violence; government
effectiveness; regulatory quality; rule of law; and control of corruption. This study applied the formula of Kogut and Singh (1988) to calculate institutional distance between home and host countries with the equation as follows.

$$ID_j = \sum_{k=1}^{n} \frac{(I_{kj} - \bar{I}_{kj})^2/\sigma^2_{kj}}{n}$$

where $I_{kj}$ stands for the index for the kth institutional dimension and jth country, $\sigma^2_{kj}$ is the variance of the index of kth dimension, $u$ indicates the U.S., $n$ stands for numbers of dimension and $ID_j$ is cultural distance difference of the jth country from the U.S. or China. Formal institutional distance dummy is set sample mean 0.69 as the standard. If formal institutional distance is bigger than 0.69, it shows significant institutional difference between countries. In this situation, dummy variable equals 1; if lower than 0.69 it equals 0.

<table>
<thead>
<tr>
<th>Share of equity</th>
<th>China</th>
<th>U.S.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>76.35</td>
<td>94.26</td>
<td>91.30</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>28.56</td>
<td>18.21</td>
<td>21.50</td>
</tr>
<tr>
<td>Min</td>
<td>8.60</td>
<td>6.10</td>
<td>5.00</td>
</tr>
<tr>
<td>Max</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Number</td>
<td>82</td>
<td>430</td>
<td>512</td>
</tr>
</tbody>
</table>

Control variables

Acquisition experience was measured adding up the number of prior cross-border acquisitions each MNE had made in host country between 1985, first year available in SDC Platinum and this acquisition. For more than 1 cross-border acquisition experience, dummy variable equals 1; less than 1 equals 0.

Related Diversification was defined whether two companies are industrially similar or not by the code of business sector which is classified by SDC Platinum. If two companies are identical in their first two codes, we recognize these two companies are in a similar industry. Using data from SDC Platinum, we included diversification of the core primary business of the acquiring firm by comparing the main business of the acquirer to the main business of the acquired firms using the main 4-digits SIC (Standard Industrial Classification) of both firms. If the first two digits of the SDC were the same, firms were judged to be in a similar industry; so related diversification dummy variable was 1; it was 0 if they were in different industries.

Model and methodology

Given that our dependent variable is degree of equity ownership, we adopted a logistic regression model. At first, we wanted to put all of above independent variables in our model. But Table 2 reports descriptive statistics and correlation matrix of the variables employed in the analysis. The table showed a number of correlations at a level high enough to raise questions about multicollinearity problems. So, we made some adjustments and eliminated some independent variables in our model to maintain Variance inflation factors (VIF) and a lower level and validity of the regression. As a result, our VIF were significantly lower than the commonly used maximum VIF value of 10. After the adjustments, we started from the following basic equation mode 1-5:
(1) Degree of equity ownership <sub>i</sub> = \beta_0 + \beta_1 \text{ChineseMNEs}_i + \beta_2 \text{Culture distance}_i + \beta_3 \text{Market size}_i + \beta_4 \text{Crossborder acquisition experience}_i + \epsilon_i \\
where \text{i} = are the deals.

(2) Degree of equity ownership <sub>i</sub> = \beta_0 + \beta_1 \text{ChineseMNEs}_i + \beta_2 \text{Culture distance dummy}_i + \beta_3 \text{Market size dummy}_i + \epsilon_i

(3) Degree of equity ownership <sub>i</sub> = \beta_0 + \beta_1 \text{ChineseMNEs}_i + \beta_2 \text{Formalinstitutional distance dummy}_i + \beta_3 \text{Market size dummy}_i + \epsilon_i

(4) Degree of equity ownership <sub>i</sub> = \beta_0 + \beta_1 \text{ChineseMNEs}_i + \beta_2 \text{Formalinstitutional distance}_i + \beta_3 \text{Market size}_i + \epsilon_i

(5) Degree of equity ownership <sub>(chinese)</sub> = \beta_1 \text{Formalinstitutional distance}_{(chinese)} + \beta_2 \text{Market size dummy}_{(chinese)} + \beta_3 \text{Formalinstitutional distance}_{(chinese)} * \text{Market size dummy}_{(chinese)} + \epsilon_i

**EMPIRICAL RESULTS**

Table 2 presents bivariate correlations, and Table 3 depicts the regression results and shows the logistic regression models applied to four models described above. Model 1 test H1 that is supported, and shows that the independent variable Chinese MNEs dummy is negatively and significantly correlated (p< .000) with the degree of equity ownership, confirming that Chinese companies have a tendency to hold a lower percentage of equity of the acquired company compared to U.S. companies. The empirical analysis also confirms the negative and significant correlation of cultural distance (p< .026) with the dependent variable degree of equity ownership. Market size (p< .058) shows a positive and significant correlation with degree of equity ownership.

In Model 2, we can observe the fact that market size dummy (p< .015) has a greater and significant influence on degree of equity ownership than cultural distance dummy (p< .063) does. In Model 3, we find both market size dummy (p<.016) and cultural distance dummy (p<.000) have positive and significant correlation with degree of equity ownership. Their interaction, market size dummy* cultural distance dummy (p<.000) has a negative and significant correlation with degree of equity ownership. In Model 3, we find market size dummy (p< .280) has a smaller influence on degree of equity ownership than formal institutional distance dummy (p<.093) does but this is not a significant result.

In Model 4, we find formal institutional distance (p< .099) has a negative and significant relation with degree of equity ownership. Market size (p< .046) has a positive and significant relation with degree of equity ownership. At last, in Model 5 we find the interaction term between market size dummy and institutional distance in cross-border acquisitions of Chinese digital MNEs is positive and significant (p<.000).

As Table 3, Model 1, 2, and 4 suggest that Chinese MNEs acquire a lower degree of equity ownership than U.S. MNEs, this result supports H1. We find cultural distance has a negative and significant relation with Degree of equity ownership in Model 1. This result supports our H2. Moreover, H3 predicted greater formal institutional distance between U.S./China and international target country would cause lower degree of equity ownership. We found the results of Model 3 and Model4 are in line with H3. For H5, model 2 is in line with it, showing the effect of market size is higher than the effect of cultural distance on the degree of equity ownership of digital MNEs. Finally, as Table 4 as depicted in Model 5, the interaction term between market size and formal institutional distance is positive and significant and thus provides support for H6.
Table 2: Descriptive Statistics and Correlation Matrix of The Variables Employed in the Analysis

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Degree of equity ownership</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Chinese MNEs</td>
<td>-0.32</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Cultural distance</td>
<td>-0.25</td>
<td>0.46</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Formal institutional distance</td>
<td>-0.29</td>
<td>0.79</td>
<td>0.62</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Market size</td>
<td>0.04</td>
<td>0.17</td>
<td>-0.05</td>
<td>-0.05</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Cross-border Acquisition Experience</td>
<td>-0.02</td>
<td>-0.15</td>
<td>-0.01</td>
<td>-0.14</td>
<td>0.06</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>(7) Related Diversification</td>
<td>0.09</td>
<td>-0.10</td>
<td>-0.06</td>
<td>-0.12</td>
<td>0.00</td>
<td>0.05</td>
<td>1.00</td>
</tr>
</tbody>
</table>

To gain further insights into the nature of how market size moderates the relationships between formal institutional distance and likelihood of equity ownership of digital MNEs, we plotted the significant interaction effects obtained in Model 5. Figure 2, which depicts the interaction between market size and formal institutional distance, reveals that the relationship between institutional distance and equity ownership of digital MNEs in international market entry is negative for low-size markets, whereas it is positive for high-size markets.

Table 3: Logistic Regression Model (Main Effects)

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Exp(B)</td>
<td>B</td>
<td>Exp(B)</td>
</tr>
<tr>
<td>Constant</td>
<td>1.193*</td>
<td>(0.484)</td>
<td>1.482***</td>
<td>(0.381)</td>
</tr>
<tr>
<td>Chinese MNEs dummy</td>
<td>-1.589***</td>
<td>(0.352)</td>
<td>-1.821***</td>
<td>(0.304)</td>
</tr>
<tr>
<td>Cultural distance</td>
<td>-0.528†</td>
<td>(0.284)</td>
<td>0.590†</td>
<td></td>
</tr>
<tr>
<td>Market size dummy</td>
<td>0.939*</td>
<td>(0.386)</td>
<td>2.558*</td>
<td>(0.284)</td>
</tr>
<tr>
<td>Cultural distance</td>
<td>-0.2180*</td>
<td>(0.098)</td>
<td>0.804*</td>
<td></td>
</tr>
<tr>
<td>Market size</td>
<td>0.175†</td>
<td>(0.092)</td>
<td>1.191†</td>
<td></td>
</tr>
<tr>
<td>Cross-border acquisition experience</td>
<td>0.304</td>
<td>(0.287)</td>
<td>1.355</td>
<td></td>
</tr>
<tr>
<td>Related diversification</td>
<td>0.514†</td>
<td>(0.271)</td>
<td>1.672†</td>
<td></td>
</tr>
<tr>
<td>Formal institutional distance</td>
<td>-0.278†</td>
<td>(0.168)</td>
<td></td>
<td>-0.818†</td>
</tr>
<tr>
<td>Formal institutional distance dummy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>x²</td>
<td>67.18</td>
<td>61.95</td>
<td>61.50</td>
<td>60.25</td>
</tr>
<tr>
<td>p</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Table 4: Logistic Regression Model (Interaction Effects)

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Model 5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td>Constant</td>
<td>2.892**</td>
</tr>
<tr>
<td>Market size dummy</td>
<td>-4.097**</td>
</tr>
<tr>
<td>Formal institutional distance dummy</td>
<td>-5.278*</td>
</tr>
</tbody>
</table>
DISCUSSION AND CONCLUSION

MNEs typically face challenges to overcome liability of foreignness and to mitigate the impact of institutional distance and cultural distance. Theoretically, internationalization process approach tends to take incremental stages to go overseas; so is the entry mode changed to more equity involvement. Traditionally, institutional distance and cultural distance have been important factors influencing the entry mode choice, yet insufficient factors for explaining international expansion (Kostova et al., 2008) Closing this gap, we use the synthesis framework including institutional distance and market size to understand which the main factor is influencing the degree of equity ownership in cross-border acquisitions undertaken by digital MNEs.

Our theoretical presupposition is that international market entry decisions by digital MNEs are based on balancing costs and benefits in the foreign target market. We claim that institutional distance or cultural distance bring a negative direct effect on the degree of equity ownership in cross-border acquisitions. In contrast, we hypothesize that market size has been seem ingly realized a positive effects as opportunities. We test statistically how institutional distance and target market size differently influence the ownership choices of digital MNEs involved in cross-border acquisitions. We find that Chinese digital MNEs prefer to acquire less control in the cross-border acquisitions compared to their U.S. counterpart. That is to say, U.S. digital MNEs are probably superior to Chinese MNEs in holding a relative leadership in the internationalization of firm-specific assets.

Therefore, we find that cultural distance and formal institutional distance reduce the degree of equity ownership, whereas target market size increases it. Our results support that institutional distance or cultural bring a negative direct effect on the degree of equity ownership in cross-border acquisitions and market size has been realized a positive effects as opportunities. Furthermore, we also demonstrate that the digital MNEs reveal stronger market size effects than the cultural distance effects. Our research results support that the effect of market size plays a more prominent role than that of informal institutional distance. However, our study finds that the market size moderates the negative relationship between institutional distance and the degree of equity ownership of market entry by Chinese digital MNEs. The study made contributions to exp and traditional internationalization theory to specific new firms, namely digital MNEs.

<table>
<thead>
<tr>
<th>Market size dummy*Formal institutional distance</th>
<th>5.753***</th>
<th>315.004***</th>
</tr>
</thead>
<tbody>
<tr>
<td>$x^2$</td>
<td>175</td>
<td></td>
</tr>
<tr>
<td>$p$</td>
<td>0.000</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2: Moderating Effect of Market Size on The Relationship Between Formal Institutional Distance and The Degree of Equity Ownership in Cross-Border Acquisitions
REFERENCES


