

Opportunities and challenges for multiple-embeddedness through mergers and acquisitions in emerging economies

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Abstract

Purpose – This paper seeks to examine opportunities and challenges from multiple-embeddedness of developed countries multinational enterprises (DMNEs) in emerging economies. It further investigates the effect of global financial crisis 2008 on the DMNE's embeddedness strategies.

Design/methodology/approach – Utilising POLS regression on secondary data bases, such as World Bank Development Indicators, over two period, first, from 2003 to 2007 (pre global financial crisis period), and second, from 2008 to 2012 (post global financial crisis), this study models the advantages and challenges faced by DMNEs into emerging markets.

Findings – Findings suggest that challenges in terms of institutional and cultural differences have decreased over time. This may be due to the DMNE's experience of operating in emerging economies.

Research limitations/implications – Since the effects of the global financial crisis 2008 is on-going, further changes in terms of opportunities and challenges are yet to be uncovered. Further investigations using qualitative designs are also warranted because many qualitative phenomena, such as cultural differences, cannot be captured through purely quantitative methods.

Practical implications – There are two practical implications. First, policy makers can appreciate the change in the economic gravity in the current scenario. Openness of economies may further bring in economic equilibrium in favour of emerging economies. Second, managers of businesses looking to internationalise should pay attention towards changing market conditions and requirements in emerging economies.

Social implications – This paper portrays the importance emerging economies which consist of a large proportion of the world's population.

Originality/value – In the current economic scenario, this paper seeks to highlight the opportunities and challenges for multiple-embeddedness through Mergers and Acquisitions in emerging economies, which is seen to be timely and topical and at the same time advances our theoretical knowledge and practical implications.

Keywords: Multiple-embeddedness, Mergers and Acquisition, EMNE, Emerging Economies, Multinational Enterprise, India

1. Introduction

This paper seeks to examine opportunities and challenges of multiple-embeddedness through mergers and acquisitions by multinational enterprises (MNEs) from industrially advanced countries into emerging economies. In the context of our paper, we refer to *embeddedness* as the degree to which the MNE's economic activity is integrated within the external local environment of the host country. We posit that this can be played out by acquiring local firms in the host country. External local environment refers to the local institutions of host country where the MNE operates and legitimises. In contrast to the external environment, organisations create their own (internal) environment that consists of 'organisational culture, strategy, structure and operations' followed within the boundary of the MNE (Fink et al., 2012, p. 199). Meyer, Narula and Mudambi (2011) suggest that in both environments the MNE faces opportunities and challenges. At the external level, host countries' location advantages presents a variety of opportunities, such as potential to tap market and resources, as well as challenges that arise due to differences between home and host countries' institutions. However, at the internal level, the MNE faces benefits and challenges through the integration of the acquired firm.

We clarify that the scope of this paper is not to cover the internal environment of the MNE by investigating the post-acquisition integration issues. It aims to explore the opportunities and challenges arising during the course of external embeddedness of the MNE, i.e. embeddedness, within external environment, through mergers and acquisitions. We argue that challenges of external embeddedness faced by MNEs from advanced economies into emerging economies diminish over time. We extend the multiple-embeddedness approach through this contribution by suggesting that opportunities and challenges are not static - opportunities grow, whereas the challenges diminish over time. The reasons for such a proposition is linked to the increase in degree of external embeddedness itself that enhances not only the MNE's scale and scope of international operations but also gives the MNE experiential learning to deal with challenges in foreign locations.

We build upon the evolving literature on multiple-embeddedness focusing on embeddedness of MNEs from developed economies into emerging markets. In terms of context, we choose India to represent emerging markets as an example to portray our case due to the following reasons. *First*, India is the second most important and largest emerging economy in the world

economy after China. *Second*, India's locational advantages offer many opportunities, such as growing market size. *Third*, India is still a developing economy which presents typical business challenges especially for firms originating from abroad (Cappelli et al., 2010).

Our next contextual focus is to study the phenomena of multiple-embeddedness over time, wherein we cover a period from 2003 to 2012. This covers a period of 5 years prior to the global financial crisis of 2008, i.e. 2003-07, and a 5 year period during the crisis, i.e. 2008-12. We show that during the crisis MNEs originating from developed countries (DMNEs) have enhanced their external embeddedness by undertaking mergers and acquisitions in India. This time setting allows us to test our propositions and gives us a longitudinal spatial perspective of the MNEs strategies of external embeddedness.

In view of the above background, our overarching research objective is to examine how opportunities and challenges in emerging economies have influenced the external embeddedness of MNEs from advanced economies into emerging economies. The organisation of the paper is as follows. In the next section, we review literature on embeddedness. This is followed by our hypotheses development in section three. The fourth section contains research methods. Our results and discussion are presented in section five, and the conclusion in section six.

2. Literature Review

According to Dacin, Ventresca and Beal (1999), 'embeddedness' is an evolving concept, as it involves understanding of economic activity in wider social structures. Dacin et al., (1999) and others (see for example, Barber, 1995) give credence to Polanyi (1944) for introducing the term *embeddedness* in his work *The Great Transformation* and being the originator of this concept. More recently research has concentrated on organisation theory being concerned with inter-organisational relations, i.e. internal embeddedness (Dauber et al., 2012), and relationships concerning organisation and the external environment, i.e. external embeddedness (Nohria and Gulati, 1994). Much of embeddedness research seeks to demonstrate that market exchange is linked with, and defined by, larger and more complex social processes, such as political risk and cultural differences, in the context of this study, which is brought out in our discussion below.

According to Shrivastava, Huff, Dutton and Baum (1996) organisations pay special attention to the degree to which a firm's embeddedness is shaped by the local context of its external environment. Zukin and DiMaggio, (1990) suggests four mechanisms by which organisational embeddedness in the local context is affected. These are structural, political, cognitive and cultural. *Structural mechanisms*, refers to social structure and the ties and relationship among actors within it that often put constraints on organisation of economic activity (Granovetter, 1985). In contrast, the *political mechanisms*, explains how economic activities are shaped by regulative institutions, such as the legal system, the tax code, state actors and local politics (Zukin and DiMaggio, 1990). Thus, there seems to be an overlapping argument when it comes to the structural and political mechanisms and the actors involved. For example, the 'actors' that Zukin and DiMaggio, (1990) refer to in structural mechanisms, most certainly include 'political actors', who in turn shape economic activities.

The *cognitive mechanisms*, encompasses wide-ranging areas with a focus on 'the sources and consequences of cognition at multiple levels of analysis'. It mainly represents the way 'symbolic representations and frameworks...affect individual and corporate actors as they interpret and make sense of their world'. In contrast, the *cultural mechanisms* are collective cognition which is mostly referred to in terms of shared understandings and meanings, which lead to forms such as organisation activity, structures, and process including the collective understandings. These shape organisational strategies, goals, and ideologies, which in turn prescribe conceptions of the means and ends of individual action, rules, systems, laws etc. that could be seen as organisational control mechanisms (Dacin et al., 1999, p.327).

Furthermore, embeddedness is affected by *reciprocal mechanisms*, wherein, the impact of society and firms is seen to constitute and re-shape each other in relation to reciprocal learning of both actors (Dacin et al., 1999). For instance, Cantwell, Dunning and Lundan (2010) argue that prevailing local institutions, in a country, shapes the overall organisational strategy, which in turn affects the institutions. Thus, the firm and institutions co evolve by having reciprocal interactions with each other.

Recent research on MNEs *embeddedness* covers two different local contexts, i.e. local context at home and local context at host countries, in which MNEs interact with the external environment, leading to different theoretical treatments of this concept. *First*, MNEs are shaped by the 'home context' from which they originate. Firms typically build their original

resource endowments in their home country which drives their international growth (Tan and Meyer, 2010). In other words, their original home context shapes their strategies. Hence for e.g. a DMNEs' *embeddedness* in their home contexts may act as either inducements or constraints on some types of overseas business activities, such as preferred organizational (Rosenzweig and Singh, 1991), entry strategies into emerging markets (Harzing, 2002), and brand images (Nebenzahl and Jaffe, 1996). More recently, Benito, Lunnan and Tomassen (2011) explore how the home context of firms originating from a economically small country influences the decision to relocate divisional headquarters. *Second*, every MNE is embedded in the local context and culture of the host country through its local subsidiary. Thus, 'the subsidiary is embedded in the MNE network as well as in its local business network' (Meyer et al., 2011, p.239). This *dual embedding* means that the subsidiary is subject to institutional pressures arising from its home context through its parent MNE and from the local context, respectively (see recent and similar arguments by Jensen and Pedersen, 2011, Rugman et al., 2011). In this context, Meyer et al., (2011, p.240) suggests that 'the interaction of MNEs with their various local contexts depends on how these contexts relate to each other'. Thus, a potential *third* dimension of local context is the connection between the home and host institutions.

International business researchers have investigated this aspect under the notion of *multiple-embeddedness*, often using different concepts (!!! INVALID CITATION !!!). Meyer et al., (2011, p.243) looks at three contexts within *multiple-embeddedness*. These are *first*, 'regional versus local contexts', wherein the local context provides both the institutional framework as well as the resource base that the MNE can access. However, local contexts are themselves embedded in broader regional contexts: issues may pertain to, for example, cities, provinces, nation states, or even supra-national units (Rugman et al., 2011). *Second*, 'higher versus lower level clusters' wherein clusters vary in terms of the sophistication of the local resources, both tangible and intangible. Older, more established clusters tend to have deeper and more sophisticated resource pools in comparison to younger and emergent clusters which tend to have shallower and less advanced ones (Jensen and Pedersen, 2011, Lorenzen and Mudambi, 2013). *Third*, 'advanced versus emerging economy home contexts', wherein MNEs originating from economically advanced economies start out with a strong home base, where these firms usually have resource and knowledge advantage, e.g. developed capital market to raise financial resources, ready access to technological and managerial know-how at home, as well as a international network advantage, i.e. availability of historically evolved

international network developed by their peers and local government (Meyer et al., 2011, p.243). In this context, it is argued that resources and knowledge available in emerging economies may provide DMNEs opportunities in the form of a different set of advantages that may complement to their existing portfolio of resources and knowledge. For instance, a recent study conducted by Pereira, Munjal and Nandakumar (2016) suggests that the US centred multinational firms in the Business Process Outsourcing industry are extending their local embeddedness in the second and third tier cities of India to exploit the availability of human resource with their advanced technological systems.

3. Hypotheses Development

3.1. Cultural Distance and Embeddedness

As discussed above, cultural mechanisms, formed through shared understandings and meanings of social reality, shape organisational strategies of embeddedness within a local context (Dacin et al., 1999). In this respect, cultural connections between home and host countries are often regarded as a significant driver for MNEs decision to locate its economic activities. These cultural connections raise the MNE's understanding about the host market thereby minimising the market risk.

However, gaps exist in cultural connections, which are often due to a variety of belief systems, social norms, religions, and languages, lead to differences in understanding and meaning of social reality. Consequently, individuals and organisations interact with other individuals and organisations in various ways. These gaps are often referred to as cultural distance between home and host countries. The extant literature on multinational organisations suggests that cultural distance is an important dimension associated with host countries location choice decisions. It also forms a part of the famous CAGE (cultural, administrative, geographic, and economic) distance framework suggested by Ghamawat (2001).

Cultural distance can create differences between two countries and deter trade and investment relationship between them because cultural distance is associated with higher risks and transaction costs arising due to unfamiliar business laws, customs, and means of doing business. On the other hand, cultural closeness may reduce transaction costs and market risks in host country due to similarity of business laws, customs, means of doing business and possible familial links (Johanson and Vahlne, 2009).

Research further suggests that culture is a critical factor especially in embeddedness through mergers and acquisitions because it affects the success and failure of mergers and acquisitions (Dauber, 2012). Thus, for the MNE wanting to expand into a foreign market, cultural distance is a key challenge. It is therefore expected that a negative relationship exists between cultural distance and embeddedness through mergers and acquisitions. This forms the basis for our *hypothesis H1a*.

We further build on the above discussion for our second *hypothesis (H1b)*, by arguing that during the 2008 financial crisis the negative effects of cultural distance on DMNEs aspiring to invest in India has shrunk because of the following three reasons. *First*, opportunities for investment during this period in advanced economies were reduced. Several advanced economies were badly affected by the crisis and this had a direct negative impact on their investments and profitability. *Second*, in contrast, opportunities for investment in emerging economies, such as India, have increased. Emerging economies were among a few places where MNEs from economically advanced economies could profitably invest and expand as these countries were less affected by the 2008 financial crisis (Fidrmuc and Korhonen, 2010). *Third*, over time, it is likely that the experiential learning of operating in emerging economies enhanced the capabilities of DMNEs to tackle the challenges arising out of cultural distance (Muehlfeld et al., 2012). Thus, we hypothesise as follows:

H1a: Cultural distance negatively affects DMNEs' embeddedness through merger and acquisitions in India.

H1b: The negative effect of cultural distance on DMNEs' embeddedness through merger and acquisitions in India has reduced during the 2008 financial crisis.

3.2. Political Risk and Embeddedness

Along with cultural mechanisms, as discussed earlier, political mechanisms also affect the MNEs embeddedness (Zukin and DiMaggio, 1990). Research shows that local political context of host countries, such as political conditions, corruption, violence, and quality of the institutions significantly affect the MNE's decision to undertake foreign direct investment (Murtha and Lenway, 1994, Delios and Henisz, 2003). Together these factors constitute a risk which is often referred to as 'political risk'.

Thus, empirically, foreign direct investment has been shown to be sensitive to, and inversely related to, political risks in host countries (Harms, 2002). Further, the extant literature (discussed below) suggests that countries with high political risk are dealt with by arm length-servicing modes, such as exporting, licensing, and outsourcing than foreign direct investment because embeddedness through mergers and acquisitions involves higher commitment and the existence of sunk costs (Buckley and Casson, 1976, 1981, 1999, Delios and Henisz, 2003, Harms, 2002).

A review of the literature on political risk and MNEs' decision of foreign direct investment suggests that MNEs are more likely to be attracted by countries in which democracy is respected (Busse, 2004). Utilizing qualitative evidence from investors, insurers, and location consultants, Jensen (2008) explores the mechanisms linking democratic regimes with lower levels of political risk. He found that democratic regimes reduce risks for multinational investors, specifically through increasing constraints on the executive. Jun and Singh (1996) analysed foreign direct investment in a sample of 31 developing countries. They found that political risk is statistically significant and the foreign direct investment inflows were negatively associated with the level of political risk in host countries. Busse and Hefeker (2007) further suggests that other than democracy, government stability, the absence of internal conflict and ethnic tensions, and ensuring law and order are also significant determinants of foreign direct investment. These authors use different econometric techniques for a data sample of 83 developing countries and the period 1984 to 2003, to provide the evidence. It is therefore expected that multiple-embeddedness through mergers and acquisitions is negatively associated with political risk associated with the host country, which forms the basis of our *hypothesis 2a*.

In the context of our study, we argue that during the 2008 financial crisis the negative effect of political risk has also shrunk. This is mainly because of the following four reasons. *First*, opportunities for investment in advanced economy reduced drastically during the crisis, as these countries were most affected by the crisis. *Second*, opportunities for investment in emerging economies increased during this time period as these countries were less affected and were increasingly becoming open for inward investments. *Third*, institutions in emerging economies have developed and evolved over time, including during the period of 2008 financial crisis, thus reducing the level of risk (Khanna and Palepu, 2010). *Fourth*, then prime minister Dr. Manmohan Singh led United Progressive Alliance (UPA) government during the

2004-2009 period in India was politically stronger (had the numbers in the Indian parliament) which not only boosted investors confidence in India but also reduced the perception of political risk in India. The people were upbeat and the mood reflected in a mandate for the then existing government (Ahluwalia, 2012). We thus hypothesise that:

H2a: Political risk negatively affects DMNEs' embeddedness through merger and acquisitions in India.

H2b: The negative effect of political risk on DMNEs' embeddedness through merger and acquisitions in India has reduced during the 2008 financial crisis.

4. Research Method

As indicated in the introduction, we measure embeddedness through mergers and acquisitions. Our database provides us the value of mergers and acquisitions (in US dollar). We clarify that we could not consider the value of greenfield investment because the disaggregated data on the same is not available. The Reserve Bank of India and the Department of Investment Planning and Promotion (DIPP) which are the official agencies of the government of India for collecting and reporting data on foreign direct investment do not provide disaggregated data on greenfield foreign direct investment by investing countries.

We thus measured embeddedness through value of mergers and acquisitions for which the data is available from Thomson One Banker (TOB). We consider this a credible and reliable data source as it has been previously used in similar researches (Daniels et al., 2007). The data collected from TOB suggests that against the decline in global mergers and acquisitions during the 2008 financial crisis (UNCTAD, 2013) the mergers and acquisitions undertaken by DMNEs in India were rising. Table 1 show that the numbers as well as the value of mergers and acquisitions undertaken by DMNEs from the USA, the UK and Japan in India during 2008-12 were more than the levels in 2003-2007, when the global economy was on a high. These figures primitively lend some support to our hypotheses.

We have chosen mergers and acquisitions by the USA, the UK and Japanese MNEs because of following reasons. *First*, these economies are ranked top investors in India. *Second*, these economies cover a good and vast economic and geographical spread in the world. *Third*, these economies serve as a good mix of countries that are culturally and institutionally close as well as distant from India.

****INSERT TABLE 1, FIGURE 1 AND 2 ABOUT HERE****

Since our unit of analysis in the paper is country, we match the dependent variable (value of mergers and acquisition) by year and country for each acquiring country to create a pooled data set. The variables and data sources are given in table 2. 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 dummy variable, i.e. crisis, and variables involving computation, i.e. Cultural Distance and Political Risk. The log-log function enables the transformation of a non-linear relationship between our dependent and independent variables into a linear one. It measures foreign direct investment elasticity with respect to our set of explanatory variables (Crown, 1998).

****TABLE 2 AROUND HERE****

In order to formally test our hypotheses, we created the following model.

$$\ln(\text{Value of MA}_{jt}) = a + b1 \ln(\text{Market}_{jt}) + b2 \ln(\text{Resource}_{jt}) + b3 (\text{Exchange Rate}) + b4 \ln(\text{Home}_{jt}) + b5 \ln(\text{IFDI}_{jt}) + b6 (\text{CD}_{ij}) + b7 (\text{PR}_{it}) + b8 (\text{Crisis} * \text{CD}_{ij}) + b9 (\text{Crisis} * \text{PR}_{it}) + u_{ijt}$$

In the above regression models, j stands for home country; i stands for host (India) country, t for time and i-j stands for the difference between home and host country. u_{ijt} represents the error term.

Cultural distance (CD) was measured using the modified version of Kogut and Singh's cultural distance index which has been used in various studies. 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

$$CD_{ij} = \sum_{k=1}^4 ((I_{kj} - I_{ki})^2 / V_k) / 4$$

Where, CD_{ij} = cultural distance of jth country from India

I_{kj} = index of the kth cultural dimension and the jth country

I_{ki} = index of the kth cultural dimension of the India (i stands for India).

$V_k =$ is the variance of the index of the k th cultural dimension.

Political risk (PR) was measured using a weighted composite index made up of 12 different country specific variables such as internal, external conflicts; religion, military in politics; socioeconomic conditions; government stability; corruption, law and order; bureaucracy; and democratic accountability. The index used is comprehensive and covers social, economic, political and financial aspects of a country (Buckley et al., 2012). The formula to compute the index is:

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

Where, $PRI_j =$ Political Risk Index of j th country

$GS_j =$ Government Stability Index of j th country

$SEC_j =$ Socioeconomic Conditions Index of j th country

$IP_j =$ Investment Profile Index of j th country

$IC_j =$ Internal Conflict Index of j th country

$EC_j =$ External Conflict Index of j th country

$C_j =$ Corruption Index of j th country

$MIP_j =$ Military in Politics Index of j th country

$RT_j =$ Religious Tensions Index of j th country

$LO_j =$ Law and Order Index of j th country

$ET_j =$ Ethnic Tensions Index of j th country

$DA_j =$ Democratic Accountability Index of j th country

$BQ_j =$ Bureaucracy Quality Index of j th country

In our main model, Cultural Distance (CD) and Political Risk (PR) are main independent variables. Theoretically, these variables negatively affect the value of mergers and acquisitions (Value of MA) which is our dependent variable. As proposed in the hypotheses we include an interaction of both Cultural Distance and Political Risk with Crisis. Our conjecture is that during crisis cultural distance and political risk will cease their negative significance. Thus, both interaction terms, i.e. CD*crisis and PR*crisis will not be significant. Our model includes certain control variables, such as the market size (Market) and natural

resource endowment (Resource) of the host economy. Both variables represent the opportunities of embeddedness. We also control for foreign exchange rate of Indian Rupee against US dollars. The control for foreign exchange rate is regarded important because during the period under examination, the US dollar depreciated by about 15 percent against the Indian Rupee. This would have a negative impact on the acquisition activities. The exchange rate with respect to US dollar is used because the values of deals in our dataset are given in the US dollar. We further control for the size of the investing economy because it is likely that bigger economies will undertake bigger investment than smaller economies.

In order to prevent our results being affected by outliers, we have removed the observations that are apparent outliers. These includes an acquisition of Hutchison Essar Ltd's acquisition by UK based Vodafone PLC in 2007 for about 12.5 billion USD; an investment of 9 billion USD by British petroleum in Reliance Industries Limited in 2011; and acquisition of Ranbaxy by Japanese pharmaceutical Daiichi Sankyo for 3.4 billion USD in 2008. For the confirmation of results, we run the analysis using, STATA 12, including these merger and acquisitions but the results were not significantly different. This shows that our model is stable and our results are robust.

5. Findings and Discussion

In this section we present our results and discuss them in relation to our hypotheses. The Random Effect Generalised Least Square (GLS) multiple regression results are presented in table 3. Our results show that our hypotheses 1a, 2a and 2b are supported with expected signs. However, our hypothesis 1b is not directly supported as the interaction of cultural distance and crisis turns out to be significant with positive sign. The descriptive statistics along with variance inflation factor (VIF) statistics are presented in table 4. Our results do not have multicollinearity because none of the VIF statistics is more than the threshold level of 10 (Field, 2010, Hair et al., 2010).

In order to check the model specification we run 'linktest' command in STATA 12. The 'linktest' command performs a model specification test. It is based on the idea that if a regression is properly specified, one should not be able to find any additional independent variables that are significant except by chance (for details see, Bruin, 2006). The results of link tests are: $\hat{\rho}$ coefficient -0.0419, with a standard error of 0.0534 and p value 0.440.

Since, the value of $_hatsq$ is insignificant it indicates that we do not have a specification error.

****TABLE 2 and 3 AROUND HERE****

As expected and hypothesised, cultural distance (*hypothesis 1a*) is found significant with negative sign. This suggests that cultural distance between India and DMNEs' home countries negatively affects their embeddedness. Cultural distance increases transaction costs of internationalisation thereby negatively affecting the DMNE's decision to undertake mergers and acquisitions. Moreover, cultural distance between home and host countries increases the operational challenges because the host country, such as India, has different business customs. It often affects success and failure of merger and acquisitions by affecting the level of trust between the acquirer and target firm (Dauber, 2012). Thus, cultural distance generally negatively affects the MNE's embeddedness in a foreign location. However, in our context of the 2008 financial crisis, DMNEs' behaviour towards cultural distance is rather untypical, as explained below.

The cultural distance during the crisis (*hypothesis 1b*) was considered less relevant by DMNEs while undertaking mergers and acquisitions in India. However, the results suggest that cultural distance during the crisis rather has a positive effect on mergers and acquisitions undertaken in India for DMNEs. Surely, this result is not entirely as per our expectations. The difference can be attributed to our sample selection and use of proxy for measuring cultural distance. However, within the context of mergers and acquisitions, research (Muehlfeld et al., 2012, Eriksson et al., 1997, Johanson and Vahlne, 1977, Johanson and Vahlne, 2003a, Johanson and Wiedersheim-Paul, 1975) suggests that prior experience in a given host market boosts the firm's confidence to overcome challenges arising due to cultural distance. Moreover, the opportunities of doing business in emerging economies, such as India, have lured DMNEs to enhance their embeddedness through mergers and acquisitions (Cavusgil et al., 2012). Pereira, Munjal and Nandakumar (2016) reported that during the 2008 financial crisis, US MNEs in the BPO sector expanded their operations into tier 2 and tier 3 cities within India. These studies indicate that DMNEs have concurred challenges arising due to cultural distance and for many DMNEs organisational learning and adaptation of Indian culture have made the effect of cultural distance turn positive.

Political risk (*hypothesis 2a*) was also found to be negatively associated with embeddedness of DMNEs in India. Like cultural distance, political risk also increases the transaction costs of internationalisation (Murtha and Lenway, 1994). Internal and external conflicts, instability in government and policies, corruption, lack of law and order, and accountability enhance the risk of doing business in a foreign country. Thus, embeddedness is sensitive to, and inversely related to, political risks in host countries (Harms 2002).

However, during the 2008 financial crisis, many DMNEs realised that India had lower political risks. The insignificance of the interaction between political risk and the crisis indicates that DMNEs became resilient towards political risk (*hypothesis 2b*). This is an outcome of stable government with a majority mandate which pushed forward ongoing policies of economic liberalisation (Ahluwalia, 2012). Consequently, DMNEs have ceased the rising business opportunities in India and raised their embeddedness in India. Furthermore, prior experience also helps the firm to operate in a different institutional environment, as was the case in India. Recent research also suggest that the firm's response to a given institutional environment varies according to the firm's prior experience of operating in similar institutional environment (Henisz and Anand, 2008).

The experiential learning of DMNEs in India has made them apt to deal with the cultural distance and political conditions in India. However, the adaptation is not just one way. The society and institutions in India has also westernised, which may have also eased down the challenges faced by DMNEs and led to reciprocal cultural and political embeddedness of the MNE (Dacin et al., 1999).

6. Conclusion

This paper advances our theoretical knowledge and contributes to the evolving literature on MNEs embeddedness through Mergers and Acquisitions in emerging economies, such as India. It shows that the challenges of embeddedness in terms of institutional and cultural differences have decreased over time. This is due to institutional development, rising opportunities, and the DMNE's experience of operating in emerging economies. Our contribution is timely and topical, and at the same time has following practical implications. First, policy makers can appreciate the change in the economic gravity in the current scenario. Openness of economies may further bring in economic equilibrium in favour of

emerging economies. Second, managers should evaluate market conditions, which are quite dynamic. A market which was not attractive in past may become attractive in the future. Thus, managers should remain prepared to enter into new markets.

This study has some limitations. First, the research results may lack generalisability. Since the effect of the global financial crisis 2008 is on-going, further changes in terms of opportunities and challenges are yet to be uncovered. Further investigations using qualitative designs are also warranted because many qualitative phenomena such as cultural differences cannot be captured through purely quantitative methods.

Future research should further test our propositions that the effect of cultural distance has shrunk due to prior experience of DMNEs. Furthermore, future research should also vet our claim that institutional development in emerging economies has reduced the level of political risk in these economies.

Table 1: Distribution of Merger and Acquisition Hosted by India

	2003-07		2008-12	
Countries	Number	Value (in thousands US\$)	Number	Value (in thousands US\$)
USA	308	11,414.39	314	11,969.66
UK	97	19,083.94	79	18,107.68
Japan	20	575.69	80	12,104.87
Total	425	31,074.02	473	42,182.21

Source: Authors' compilations from Thomson One Banker

Table 2: Data

Variables	Data Source	Proxy	Multiple Embeddedness
Mergers & Acquisitions (MA)	Thomson One Banker	Value of Deals	Embeddedness
Host Market Size (Market)	World Bank	GDP	Opportunities
Natural Resources (Resources)	World Bank	Ratio of ore and metal export to merchandise	Opportunities
Cultural Distance (CD)	http://Geert-hofstede.com	Calculated	Challenges
Political Risk (PR)	International Country Risk Guide	Calculated	Challenges
Home Size (Home)	World Bank	GDP	Control
Home Inward FDI (IFDI)	UNCTAD	Inward FDI flow in India	Control
Foreign Exchange Rate (Exchange Rate)	Federal Reserve	USD to Indian Rupee	Control
Crisis		Equals to 0 for 2003-07 and equals to 1 for 2008-12	Time Dummy

Note: *sig at 0.1; ** sig at.05 and *** sig at .01

Table 3: Random Effect Results

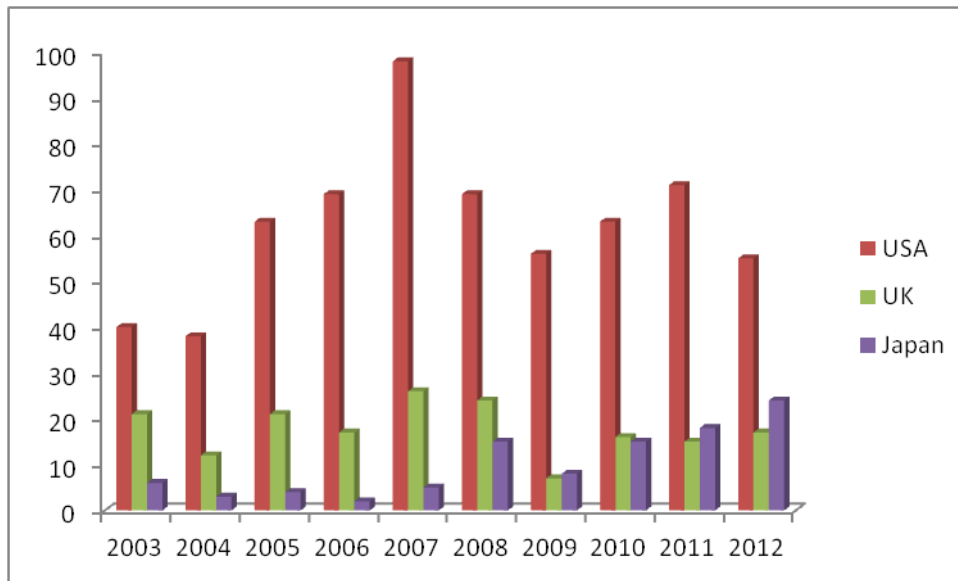
Variables	Control Model	Main Model
	Coefficient (Standard Error)	Coefficient (Standard Error)
Market Size	3.991 (1.534)**	4.129 (1.369)***
Natural Resources	0.35 (0.274)	0.269 (0.294)
Foreign Exchange Rate	-0.30 (0.105)***	-0.36 (0.146)**
Home Size	0.533 (0.315)	0.519 (0.279)*
Host Inward FDI	-0.946 (0.806)	-1.11 (0.722)
Cultural Distance (CD) Hypothesis 1a	-1.434 (0.442)***	-2.643 (0.587)***
CD*Crisis Hypothesis 1b		2.216 (0.793)**
Political Risk (PR) Hypothesis 2a	-0.45 (1.252)	-0.675 (0.311)**
PR*Crisis Hypothesis 2b		-0.341 (1.542)
Constant	-75.535 (26.838)**	-69.503 (30.582)**
Wald chi2(9)	58.84	39.95
Overall R Sq	0.75	0.65

Note: *sig at 0.1; ** sig at.05 and *** sig at .01

Table 4: Descriptive Statistics

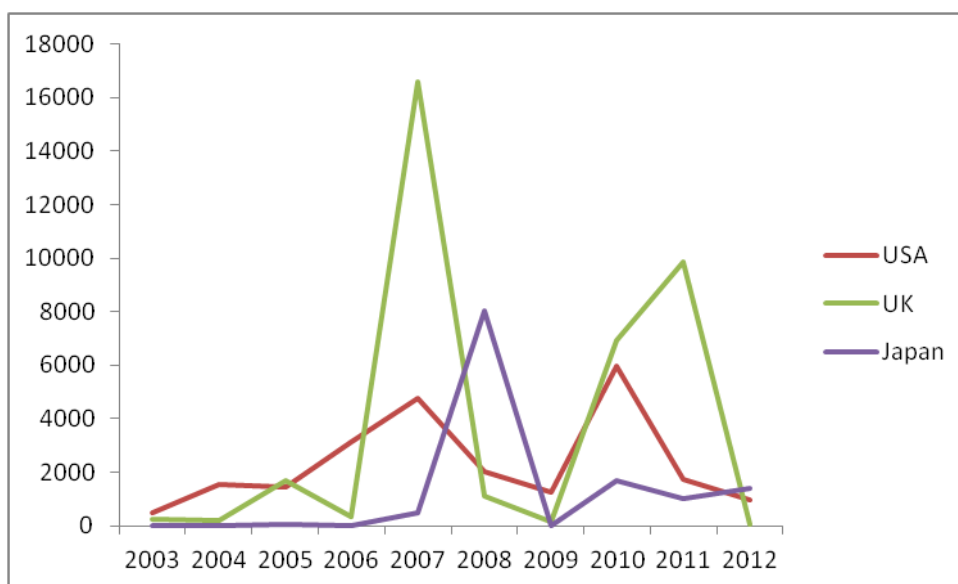
Variable	Mean	Std. Dev.	Min	Max	VIF
Market Size	1.24×10^{12}	4.47×10^{11}	6.18×10^{11}	1.88×10^{12}	6.16
Natural Resources	5.67	1.47	3.45	9.07	2.97
Exchange Rate	46.042	3.124542	41.35	53.44	1.95
Cultural Distance	2.13	0.551675	1.66	2.89	1.00
Political Risk	6.16	0.249966	5.7	6.6	1.01
Home Size	7.15×10^{12}	5.20×10^{12}	1.88×10^{12}	1.62×10^{13}	1.02
Host IFDI	2.29×10^{12}	1.32×10^{12}	4.32×10^{11}	4.34×10^{12}	7.65

Figure 1: Number of Foreign Acquisitions



Source: Authors' compilations from Thomson One Banker

Figure 2: Value of Foreign Acquisitions (in thousands US\$)



Source: Authors' compilations from Thomson One Banker

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!!! INVALID CITATION !!!

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