

Varieties of institutional systems and cross-border acquisitions: A comparative study of Brazil and China

Abstract

This study explores how the institutional systems of Brazil and China impact firm characteristics such as ownership type, state provision of capital, and social capital, as well as the implications for Outward Foreign Direct Investment (OFDI). Using Fainshmidt, Judge, Aguilera & Smith's (2018) framework, both country-level OFDI data and micro-level transaction and firm data were analyzed. The findings reveal significant variations in deal structure and location choices for Brazilian and Chinese companies in international acquisitions. The Varieties of Institutional Systems (VIS) framework sheds light on OFDI at the country level, as well as location choices and deal motivations in foreign markets.

Keywords: varieties of institutional systems, outward foreign divest investment (ODFI), cross-border mergers and acquisitions (CBAs), Brazil, China

Track: Strategy

Track (Alternative): International Business and International Management

Introduction

The level of Outward Foreign Direct Investment (OFDI) from Emerging Markets (EMs) has increased significantly since the beginning of the 21st century and represents a rising share of global FDI (UNCTAD, 2006: p.2013). The BRIC countries differ in their home country institutional systems, which in turn would impact OFDI and Cross-border Acquisitions (CBAs) when EM MNEs (Emerging Market Multinational Enterprises) make acquisitions abroad. However, the existing literature on patterns and location of OFDI and CBAs mostly focuses on single countries and few studies explore how the home country institutional systems translate into firm-level strategies in international acquisition deals.

For instance, in the case of China, scholars argue that contrary to the mainstream FDI theory (Caves, 1971 and Dunning, 2001), Chinese firms invest overseas not to exploit existing competitive advantages, but to redress competitive disadvantages (Child & Rodrigues, 2005). Some scholars argue that Chinese MNEs adopt the springboard perspective to leapfrog (Luo & Tung, 2007) their competitors. In a similar vein, Rui & Yip (2008) develop a strategic intent perspective and examines how Chinese firms strategically use CBAs to achieve strategic goals, such as acquiring strategic capabilities to offset their competitive disadvantages and leveraging their unique ownership advantages, while making use of institutional incentives and minimizing institutional constraints.

However, it is not clear whether this is a phenomenon of all EM MNEs or it is just a phenomenon of Chinese firms that adopt a long-term orientation. Scholars have highlighted that institutions play a significant role in firm operations (Xu & Meyer, 2013) and country institutional factors can be associated with firm characteristics and firm strategic choices. By exploring such institutional drivers, we aim to explore the institutional driving forces for OFDI and CBAs in both Brazil and China.

The aim of the paper is to compare the institutional environment of Brazil and China in a nuanced way. CBAs are an important method for both Brazilian and Chinese MNEs to enter a foreign market. Recent studies have documented that the mode of international acquisitions has been used by many Brazilian companies to enter foreign markets and become one of the preferred vehicles of international expansion by Brazilian MNEs (Cyrino & Barcellos, 2013). Similarly, studies have found that Chinese firms using M&As are primarily motivated by the need to increase market share to enable faster entry into new markets, promote diversification and obtain foreign advanced technology (Boateng, Qian, & Tianle, 2008). Through comparison and contrast, we aim to develop a better understanding of interplay between macro-level institutional environment and micro-level firm strategies and outcomes.

The theoretical framework used is the Variety of Institutional Systems (VIS) framework, developed by Fainshmidt and colleagues, as it provides a good framework to unpack the home country's institutional configurations (Fainshmidt et al., 2018). We have chosen to conduct a **comparative study** in these two selected countries. Brazil and China have different institutional environments, historical roots, and political systems, which allows us to examine the implications of cross-national institutional differences for organizations embedded in different types of institutional systems (Fainshmidt et al., 2018). Secondly, as emerging markets, the institutional environment for Brazil and China also share some **similarities**. Both Brazil and China have successfully privatized companies in the past few decades and the influence of the state is an important part of both countries. State ownership can be both in the form of majority ownership (Rao-Nicholson & Cai, 2020) or minority ownership (Inoue, Lazzarini, & Musacchio, 2013). Both countries have similar broad economic and geopolitical goals in promoting OFDI (Caseiro & Masiero, 2014). Thirdly, comparing Brazil and China can provide insights into the implications for business of the institutional systems of two different countries. For example, comparing the characteristics of state ownership government

involvement and corporate governance could aid in understanding the behavior of SOEs and business groups (BGs) in CBAs.

The paper's structure is as follows: Section 2 summarizes the theoretical framework of the VIS and its suitability for analyzing CBAs. Section 3 provides a country-level analysis of institutional elements for Brazil and China. Section 4 outlines the methodology for collecting data on CB M&As from these two countries. Section 5 presents firm-level and deal-level data findings. The paper concludes with a discussion of the theoretical and empirical contributions.

Varieties of Institutional Systems (VIS)

The VIS framework has provided a contextual taxonomy to compare different countries' institutional systems. It proposes that countries can be categorized into different institutional types based on the nature of their institutions. The framework identifies several categories of institutional systems, including the role of the state, financial markets, human capital, social capital, corporate governance and highlights the different ways in which these institutions influence companies in the institutional system.

The VIS framework has been developed following the literature on comparing capitalist systems but is more comprehensive than Varieties of Capitalism (VOC) and National Business System (NBS). Fainshmidt et al. (2018) started by comparing different streams of literature notably the VOC, and NBS literature and provides a critique of the VOC and NBS to motivate the extended framework of the varieties of institutional systems (See Table 1 for a summary) by incorporating the role of the state, including direct state dominance, indirect intervention in the private sector and the type of the state. In addition, VIS also includes family wealth and family intervention in management which are not included in VOC and NBS. The framework is suitable for application over diverse country contexts, including developed and developing countries because it considers the role of the state and corporate governance. EMs differ from developed countries when there are institutional voids in the capital market, labor market and product markets. The state and BGs fill in these institutional voids and provide internal markets to facilitate transactions both at home and beyond the national borders in OFDI and CBAs.

INSERT TABLE 1 HERE

Fainshmidt et al. (2018) then categorized emerging markets into 7 different configurations: state-led, fragmented with fragile state, family led, centralized tribe; emergent LME, collaborative agglomerations, hierarchically coordinated. This model explains the institutional configurations of home country institutional systems. Table 2 below presents a summary of the institutional systems by Fainshmidt for the countries Brazil and China.

INSERT TABLE 2 HERE

According to Table 2, Brazil is classified in the system as *family-led*, where wealthy and dominant families take center stage in ownership, resource allocation and management. China is classified as *state-led* configuration in which the state takes an active role in the economic order of the society (Fainshmidt et al., 2018). Both Brazil and China feature state direct dominance and indirect intervention. Brazil has a developmental state while China has a developmental and predatory state in the category of type of state. In the financial market, both countries have developed credit markets. While Brazil has a relatively developed equity market, the Chinese equity market is quite underdeveloped. Family wealth is important in the context of Brazil, but state-provided capital is more important as a source of capital. Both countries have been categorized as low for coordination with labor indicating the absence of union as well as knowledge capital, meaning that the human capital is not well developed in

both countries. The last three columns of corporate governance also show similar data for Brazil and China, both featuring high levels of ownership concentration, the presence of family ownership and a high level of family intervention in the management of companies.

However, when trying to interpret the categorization in Table 2, we notice that more fine-grained analysis would be needed on both the macro-level and the micro-level. In terms of state ownership, both Brazil and China have been put down as both direct and indirect state intervention, but the literature would point to a much larger role of the Chinese government. Similarly, both countries have been categorized as having family ownership and high levels of family intervention. More analysis in these areas would be needed to have a better understanding of the institutional systems of the two countries.

Country-level analysis: VIS, OFDI patterns, and CBA

In this section, we will use the VIS framework to investigate different institutional dimensions in Brazil and China and the impacts on OFDI patterns. The distinctive home country institutional environment (Meyer et al. 2009; Peng, Wang, Jiang, 2008) may contribute to explaining patterns in Chinese and Brazilian OFDI and CBAs beyond national borders. Prior studies suggested entering foreign markets through OFDI demands the highest level of resource commitment in the form of institutional support, financial capital, managerial expertise, technological competency, foreign market knowledge, and international business experience (Brouthers, Brouthers & Werner, 1996).

Brazil

The role of the state

Brazil became a significant source of OFDI only in the 2000s (Campanario, Stal & Muniz da Silva, 2012). The internationalization of Brazilian firms was never considered a strategic issue by the government until the early 2000s (Fleury & Fleury, 2014). The Brazilian government did not have an explicit OFDI policy, there was still a lot of support from the state for firms to internationalize (Caseiro & Masiero, 2014). First of all, the state provides direct funding and loans. The Brazilian government has created several selected companies as national champions (Musacchio, Farias & Lazzarini, 2014).

Secondly, the government indirectly intervenes in the economy through capital provision and participation in corporate governance. The Brazilian Development Bank (BNDES) and its subsidiaries provide positive indirect intervention such as guidance and other support for companies. For example, Inoue et al. (2013) have pointed out the importance of BNDES to fund Brazilian companies in their domestic setting. Amann & Baer (2012) also pointed out that despite privatization in Brazil, the state backed BNDES plays a substantive role for firms to internationalize. In addition, the internationalization of Brazilian firms is supported by the government in the form of loans and subscription of securities to invest abroad (Alem & Cavancanti, 2005).

In summary, the Brazilian state is developmental in OFDI for Brazilian firms.

Brazil as family-led BGs

Home country institutions shape ownership types and governance structures within the economy. For example, family-led BGs play an important part in Brazil to provide internal capital market when accessing bank loans is difficult (Xavier, Bandeira-de-Mello & Marcon, 2014).

One particular type of social capital business network provides important roles to connect businesses in the presence of weak institutional frameworks in emerging markets (Delios & Beamish, 1999). These networks are usually based on organizational or personal relationships and trust, providing loose linkages between MNEs. Domestic networks can support

internationalization when firms enter unfamiliar host countries (particularly for the first time). It is very popular in Brazil and other Latin American countries to have BGs to create internal markets. BGs usually consolidate businesses in the Brazilian domestic market and facilitating a long export tradition (Veiga, 2014).

Role of the financial markets

The equity market in Brazil, also known as the stock market or the Bovespa, is one of the largest and most important in the world. The Bovespa is operated by the São Paulo Stock Exchange, which was founded in 1890 and is currently the largest stock exchange in Latin America. One important aspect of the equity market is the dominance of a few large companies, particularly those in the banking and commodity sectors. These companies, such as Petrobras, Vale, and Itau Unibanco, are among the largest and most valuable in the world. Another key feature of the Brazilian equity market is the role of foreign investors. Brazil has historically been an attractive destination for foreign investors, who have been drawn by the country's large and growing economy, as well as its abundant natural resources. Foreign investment has played a significant role in driving the growth of the Brazilian equity market.

A key characteristic of the financial markets in Brazil during the period is the volatility in both the equity and credit market. Previous studies have documented that in the case of Brazil, unstable and currency, and lack of credit all contribute to the push factors of OFDI. The instability of financial markets plays an important role in Brazilian firms' internationalization. It is rare for any major Brazilian firm to finance long-term expansion by borrowing from private markets (Amann & Baer, 2012) Brazil and the whole Latin America region have high levels of volatility (Vassolo, De Castro & Gomez-Mejia, 2011). Brazil has a very volatile currency and high inflation rate since it liberalized its capital flow regimes gradually starting from the early 1990s, culminating in an almost completely open capital account by the mid-2000s (Carvalho, 2009). Brazil has a flexible exchange rate regime and thus the exchange rate of the Brazilian Real (BRL) to other major currencies is very volatile. This would have a negative impact on OFDI as it increases uncertainty and risk for companies and makes it more difficult for them to predict future cash flows and profits.

The lack of credit also contributes to the internationalization of Brazilian firms. Due to underdeveloped financial markets and lack of property rights protection, Brazilian firms lack investment for large-scale projects with long time horizons (Inoune et al. 2013). Credit constraints for long-term projects are considered among the most important market failures in the Brazilian economy (Ottaviano & de Sousa, 2007). Access to loans is more difficult in Brazil than in other EMs. According to a World Bank (2003) report, more than half of Brazilian firms that need loans do not apply, because of the complex requirements, compared with a figure of 32% for China and 16% for India. Therefore, Brazilian companies may go abroad in search of financial resources. They do this by sourcing capital from their affiliate members (Leff, 1978) and then act as "inside lenders" to firms (Keister, 1998). This is beneficial in EMFs as underdeveloped financial institutions make it difficult for firms to access funds (Keister, 1998). Contrary to Fainsmidt, we would categorize the credit market in Brazil as underdeveloped in terms of OFDI promotion. In addition, State-provision of capital is relevant for Brazil. Caseiro & Masiero (2014) argued that 83.8% or BNDES' resources were directly invested into companies with the specific goal of OFDI promotion.

The role of human capital

Labor market coordination is characterized as low. Brazil as a country has a long history of labor activism and unionization. An important aspect of labor relations in Brazil is the role of the government. The Brazilian government has historically played an active role in shaping

labor policy and regulating the labor market. This has led to a complex system of labor laws and regulations that can be difficult to navigate for both employers and employees. During 2010s there have been some significant changes in the labor market in Brazil, including the adoption of new labor laws and reforms to the social security system. These changes have been controversial and have led to protests and demonstrations by labor unions and other groups. Labor prices are relatively expensive in Brazil and

The role of (lack of) generalized trust

Scholars argued that the institutional environment has a significant effect on the resilience of family firms and BGs in Brazil (Xavier, Bandeira-de-Mello, & Marcon, 2014) due to the institutional voids and lack of generalized trust to facilitate business transactions BGs compensate for high transaction costs in emerging economies by having their own internal capital markets to fill institutional voids (Kim and Song, 2017; Khanna & Palepu, 2000)). These networks are usually based on organizational or personal relationships and trust, providing loose linkages between MNEs. This is very popular in Brazil and other Latin American countries to have BGs to create internal markets. BGs usually consolidate businesses in the Brazilian domestic market and facilitating a long export tradition (Veiga, 2014). In addition, domestic networks can support internationalization when firms enter unfamiliar host countries (particularly for the first time).

The role of corporate governance

Brazil also has other weak corporate governance mechanisms such as poor functioning of boards, disregard for minority shareholders' rights, and low liquidity of the stock. Valadares & Leal (2000) analyzes the structure of ownership and control of public Brazilian companies using data from 325 companies listed at the Sao Paulo Stock Exchange and show a high degree of ownership concentration. In addition, the violation of the one share-one vote rule with the use of non-voting shares is very common.

It is important to note that shareholder activism of minority shareholders is not commonly found in Brazil, also since a large number of publicly traded companies have a well-defined controlling shareholder. Except for a few qualified investors, minority shareholders are mainly passive in Brazil and rarely use their equity interest to favor shareholder activism as seen in the United States and Europe (Latin Lawyers website).

A salient feature of this period was the changes in the ownership structure of productive assets and MNEs have come to dominate the industrial structure (Rocha & Kupfer, 2002). The market liberalization in Brazil has presented opportunities for foreign companies to enter the Brazilian domestic market and for local firms to develop. These structural reforms during the institutional environment also provided incentives for firms to be more competitive, and to compete with other multinational firms in the home market. Their experience and engagement in global production networks also facilitated Brazilian MNEs to learn and upgrade, allowing these firms to reach the conditions necessary for international expansion (Fleury & Fleury, 2014). Following economic reforms, the majority of Brazilian MNEs experienced phenomenal progress over the decade since 2000 (The Economist, 2009). For example, in 2000, only three Brazilian companies were on the Fortune Global 500 list and all these three companies are ranked well over 200. In 2014, 7 companies were on the Global 500 list and Petrobras was ranked 28, Banco do Brasil and Itau Unibanco Holding were 125 and 138 respectively.

China

Recent empirical studies have documented the role of home country governments in the decisions to expand internationally through M&As (Luo, Xue & Han, 2010; Peng, 2010; Rui

& Yip, 2008). Home country governments play a significant role in FDI (Buckley et al., 2015; Luo, Xue & Han, 2010) and actively push domestic firms to go abroad by providing resources, finance and incentives for OFDI.

Role of the state

Following the VIS framework, we will first explore **the role of government** in China. In China, government provision of capital and state ownership play a key role. It is well known that the Chinese government plays an important role in the business activity of Chinese firms (Lu, Liu, Wright & Filatotchev, 2014). **The direct role of the state** includes China's "going global" policy in which the Chinese government actively promotes companies to go abroad since the 2000s. Direct dominance in the form of state ownership provides an important role in providing financial capital and direct resources for SOEs (Cui & Xu, 2019). A lot of Chinese companies (particularly SOEs) internationalize following government incentives to increase political power. We have seen this in Chinese investments in Africa, but more recently for the Belt and Road initiatives. Some scholars argue that Chinese state-owned and private enterprises differ in their internationalization strategies (Amighini, Rabellotti, & Sanfilippo, 2013). Generally speaking, SOEs are more likely to pursue the strategic needs of their home country and invest more in natural resource sectors, independently of considerations of economic and political stability (Buckley, Wang & Clegg, 2007). In contrast, private Chinese firms are averse to political risk and are mainly attracted by huge demand and strategic assets offered by the target markets (Knoerich, 2010). In addition, the Chinese government has tight control of SOEs when it comes to OFDI. Chinese firms, especially the SOEs must act in line with the official recommendations in pursuing their investment strategies (Dreger, Schuler-Zhou & Schuler, 2017). For example, all Chinese OFDI by SOEs will have to be approved by the state-owned assets supervision and administration commission (SASAC) (Luo, Xue & Han, 2010).

Secondly, **indirect government intervention** is even more prominent in China. Even for private firms, political ties and the role of government are critical. Ge, Carney & Kellermanns (2019) define political ties as informal, personal connections with government personnel with a means of gaining preferential treatment and access to resources and information. Although this is present in all types of markets, China as an emerging country has significant political influence due to the presence of institutional voids (Ge et.al, 2019). For example, as a private company, Huawei enjoys a lot of government support and close relationships with the Chinese government.

Thirdly, **the type of state** would also explain the OFDI patterns for China, particularly in terms of host country location choices. On the one hand, the Chinese government is predatory. It is well documented that some firms move operations abroad to other countries to avoid political uncertainty and indirect government intervention in the home country. Political escape refers to when managers invest abroad and move operations to other countries to avoid political uncertainty in the home country (Cuervo-Cazurra, 2016) and can be a reason why firms internationalize (Witt & Lewin, 2007; Yamakawa, Peng & Deeds, 2007; Cuervo-Cazurra & Narula, 2015). Political escape is a relevant reason for MNEs in China to internationalize and enter foreign deals. To avoid both direct state dominance and indirect intervention, Chinese firms (particularly private firms) would go abroad to avoid the heavy-handedness of the communist party. On the other hand, OFDI is considered as a major catalyst for the growth and the Chinese government is also **developmental** facilitating and providing lots of support to both SOEs and private companies.

The role of financial markets

Financial resources used to be a major constraint on emerging market firms (Hobdari et al. 2017). In terms of the **equity market** for China, there are two primary stock exchanges in

China: the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE). In addition, there is also the Hong Kong Stock Exchange, which is an important market for Chinese companies to list their shares publicly. The Chinese equity market has undergone significant development over the past few decades and is now one of the largest in the world. However, the market is still volatile and foreign investment in the Chinese equity market is tightly regulated. In 2002 China introduced the system of qualified foreign institutional investors (QFII) in an attempt to provide another channel for foreign investors to invest in the rapidly expanding Chinese capital markets (Sun & Tong, 2003).

The **credit market** refers to the various forms of lending. A lot of former state-owned banks have been privatized in China and listed on stock exchanges. However, these banks still are considered to be impacted by government policies to a large extent.

The last dimension of the role of financial markets captures **state provision of capital**. Different from Brazilian companies, prior studies suggest that state-provided capital and Chinese state-owned enterprises' investment abroad is driven by government motives on macroeconomic conditions and institutional environment. State ownership provides an important role in providing financial capital (Cui & Xu, 2003). Chinese acquirers are considered to have deep pockets of the government. SOEs are more likely to invest in countries with strong political connections and bring political objectives into corporate strategic decision-making (Shleifer & Vishny, 1994). Therefore, we would expect that due to the institutional configurations, SOEs in China would behave differently compared to non-state-owned firms in OFDI.

The role of human capital

Human capital (or the lack of it) motivates EM MNEs to internationalize and acquire strategic assets in advanced countries. Although human capital with low and mid-level skills may be readily available in many emerging economies, the implementation of acquisitions abroad requires high-level managerial capacities (Buckley, Elia & Kafouros, 2014).

The two sub-themes coordinator with labor and knowledge capital fits perfectly with two types of human capital in the literature: (1) coordination with labor would concern the role of unions, efficiency of the labor market and organized labor and (2) the dimension of knowledge capital would explain strategic assets-seeking (high-skilled) OFDI.

The coordination of labor and unions is influenced by the country's political system. The Chinese government has historically played a strong role in shaping the labor market, setting out policies and regulations to control wages, working conditions and employment opportunities. Union is largely ineffective in China and the only form of union is mostly related to the communist party.

On the other hand, another area of human capital regards the development of innovation and technological development, which requires a high-skilled labor force. **Strategic assets seeking** is important for Chinese MNEs (Luo & Tung, 2007; Meyer, 2015). Chinese firms are famous for aggressively acquiring strategic assets in developed countries. This is due to the lack of strategic assets (knowledge capital) in the home country (Deng, 2009). This is known as the springboard perspective. Cui, Meyer & Hu (2014) used a sample of 154 Chinese firms, they find that firms' strategic assets seeking intent of foreign investment is influenced by their exposure to foreign competition, their governance structure and relevant financial and managerial capabilities. Therefore, the lack of knowledge capital is a driver for Chinese OFDI.

Role of lack of social capital and generalized trust

In the absence of formal institutions, business relationships are upheld by informal institutions (Ge et.al, 2019) creating an extensive amount of trust between organizations (Peng and Luo, 2000). Interpersonal networks and trust (referred to as 'guanxi' in Chinese) have been cultivated by firms and managers. This level of trust takes years to establish, it is difficult to

imitate and therefore gives a competitive advantage over other firms (Tsang, 1998). This creates a more stable environment for firms to operate, thus filling institutional voids. Firms rely on networks and alliances to grow the firm, thus leading to a micro-macro link (Peng & Luo, 2000).

Role of corporate governance

Corporate governance in China is a quite new topic. After the privatization of former state-owned companies, a lot of Chinese companies have become private companies. Chinese corporate governance discourse in practice focuses almost exclusively on agency problems and within only two types of firms: SOEs, particularly after their transformation into one of the corporate forms provided for under the Company Law, and listed companies, which must be companies limited by shares (CLS) under the Company Law (Clarke, 2003).

By integrating the resource-based view and agency theory, Hu & Cui (2014) investigates the effects of controlling owner identity, non-controlling shareholder ownership, and the interactions of these with CEO power, in order to reveal their individual and joint effects on the OFDI propensity of Chinese firms. Their empirical study of 224 Chinese publicly listed firms found positive effects of ownership of domestic institutional investors and foreign corporations on the OFDI propensity of the firms, which were moderated by the power of the CEOs in these firms.

The role of family ownership is less prominent in China compared with Brazil but can range from small and medium local enterprises to global players such as Huawei. Yang, Shang & Li used a sample of listed Chinese manufacturing family enterprises from 2009 and 2018 and found out that family ownership does not significantly reduce exploitative OFDI but significantly increases exploratory OFDI. When family offspring have succession intentions, these relationships are strengthened. In addition, family management is negatively associated with exploitative OFDI and positively associated with exploratory OFDI.

To summarize, the VIS framework provides a theoretical lens to analyze the home country the institutional environment for both Brazil and China and OFDI.

Methodology for micro-level data

To study the impacts of institutional systems on deal structures, we have collected a unique dataset on CBAs between 2000 and 2014 from Brazil and between 1986 and 2014 for China. CBAs are defined as those involving an acquirer firm and a target firm whose headquarters are located in different home countries (Shimizu, Hitt, Vaidyanath, Pisano, 2004). Deals undertaken by individuals (i.e. not from firms) are not included.

Our sample is constructed in several steps. First of all, we used Thomson SDC and Bureau van Dijk's Zephyr database to select CBAs made by Brazilian and Chinese firms. Secondly, we cross-check deals from the two databases, excluding greenfield joint ventures from our sampled data. For the deals that are contained only in one database, a manual search was conducted for supplementary data in other secondary sources. Thirdly, firm-level variables were manually collected from BvD's Orbis database, company and financial websites, annual reports, company presentations, analysts' reports and financial press, BM&FBOVESPA announcements and other business media coverage of these activities. Additional sources such as company investor relations websites, annual reports and business media are included. The government ownership variables were collected from various years of annual reports of BNDES. Thirdly, Country-level databases including the World competitiveness report, World development indicators, United Nations Conference on Trade And Development (UNCTAD) FDI statistics and World Investment Report, Vale Columbia Center on Sustainable International Investment (VCC), as well as other national sources of official statistics have

been used. In total, we have 573 deals for Brazil and 125 deals for the China sample. In the Chinese sample, a lot of deals have been excluded due to missing data.

Findings of micro-data of Brazilian and Chinese CBAs

In this section, we will have a comparison of Chinese and Brazilian CBA data and analyze whether the macro-observations translate into firm characteristics in terms of ownership type, governance, state dominance and social capital. First, we will identify how macro-observations might translate theoretically into firm-level and transaction-level behavior. Subsequently, micro-level data will be explored to examine whether they are in line with macro-level predictions.

CBAs are an important method for Brazilian and Chinese MNEs to enter a foreign market (Cyrino & Barcellos, 2013). The home country institutional systems would influence M&A deal structures, method of payment, and the likelihood of completing a deal when going abroad. CBAs involve the coordination and reconfiguration of resources and transferring of knowledge and best practices across geographically dispersed countries. The ways in which acquirers vary in their capacity to deal with national institutional differences in screening, selecting and integrating the targets will have an impact on international structure, strategies and performance outcomes. In the analysis section, we will try to analyze firm-level and deal-level characteristics and examine whether the country-level systems captured by the VIS framework are in line with CBAs from Brazil and China. For both Brazil and China, we will explore the acquirer ownership identities, and host country selections. In addition, deal structures such as full versus partial deals, methods of payment (whether it is a cash deal) and industrial diversification would be examined as well.

Results for Brazil

Table 3 below has provided some initial findings from the micro-level data regarding Brazilian MNEs. We start by examining the **ownership identities** of acquirers.

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In line with the VIS framework, prior research has argued that the Brazilian market was dominated by large family-owned conglomerates and huge state-owned enterprises in a very protected market, with high tariffs and underdeveloped capital markets (Ricz & Szunomar, 2019). First of all, our sample has confirmed that looking at the deal-level transactions, the ownership profile of Brazilian acquirers matches the VIS framework at the country level. The majority of Brazilian acquirers (52.9%) are affiliated with a BG whereas government ownership has a very small role (less than 10%). Therefore, our micro data confirms the findings of Fainshmidt et al. (2010) in terms of categorizing Brazil as family led. In the next table, we will look at the top host countries where targets are based.

Target country selection and host countries

Secondly, we will explore the host country selection for Brazilian targets in CBAs. Kostova, Roth & Dacin (2008) has highlighted, that countries differ in their institutional characteristics; organizational practices reflect the institutional environment of the country where they have been developed and established and when practices are transferred across country borders, they may not fit with the institutional environment of the host country, which may be an impediment to the transfer. According to Cheung and Qian (2009) and Kolstad and Wiig (2012), the motives for undertaking FDI differ substantially between developed and developing destinations.

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The results in Table 4 above illustrates the differences in preferred destinations for Brazilian MNEs. The results show that Brazilian MNEs tend to enter the U.S. and other neighboring Latin American countries (Cyrino & Barcellos, 2013; Fleury & Fleury, 2014). The results echo similar studies that examined overall trend of OFDI from Latin American countries. But at the same time, during this period Brazilian MNEs firms have also been documented to acquire high-tech targets to learn from the targets and expand firm capabilities and leapfrogging their other emerging market or even developed country counterparts.

The relationship between business group affiliation and state ownership and deal structures in Brazil

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Table 5 above presents a summary of deal structures. Panel A looks at the likelihood of using full versus partial acquisitions abroad. The results indicate that there is a huge difference between Brazilian acquirers. While non-affiliated firms are more likely to use full acquisitions (58.9%), BG-affiliated firms are less likely to do so (only 37.6%). This is in line with the risk profile of SOEs and BGs. Brazilian firms affiliated with BGs might be used to pyramidal structures and would prefer partial ownership both at home and abroad.

Panel B looks at the method of payment (i.e. cash deals versus non-cash deals). The results show that in Brazil BG affiliated firms are more likely to pay by cash (29.4%) whereas the percentage is much higher for non-affiliated firms (17.4%). This also confirms macro-level data about the difficulty to access capital in Brazil. Similarly, private non-state-owned companies in Brazil are more likely to pay cash.

Panel C explores the likelihood of engaging in industrial diversification or staying in the same industry when going abroad. Again, we observe differences between the BG affiliated and non-affiliated firms. This could be due to the different industries the acquirers are in and their motivations for international acquisitions.

Results for China

INSERT TABLE 6 HERE

Similar to Brazil, our deal-level data indicate that 69.6% of Chinese acquirers (Note: some acquirers may have multiple deals) in the sample are considered government-owned. This is in line with the VIS framework and our macro-level finding that argues for the importance of SOEs as acquirers in China. Other papers have similar results. For example, Xue, Zhu & Zhou (2010) pointed out that SOEs account for 69 percent of Chinese OFDI stocks in 2009 and that 16 of the 18 largest Chinese MNEs were either state-owned or state controlled.

Host country location

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In Table 7, the most popular destination for Chinese C|BAs is Hong Kong. This is not surprising as a lot of Chinese companies use Hong Kong for round-tripping and tax avoidance. In addition, it is quite common for privatized former SOEs to be listed on the Hong Kong stock exchange to have access to the equity market. In addition, a lot of other developed countries such as U.S., Canada, Australia, U.K. and Japan are among the top destinations for Chinese acquisitions. This is in line with the *type of state* in which China has been categorized as predatory as well as predicted by the lack of knowledge capital in China.

Deal structures

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Table 8 above presents the key findings for deal structures. First of all, we can notice a significant difference between the number of state-owned and private deals. State ownership is more common in China as sources of foreign investment. This is in line with previous findings that state ownership constitutes an important driving force for Chinese acquisitions abroad (Boateng, Qian & Tianle, 2008) and lots of scholars argue that SOEs differ from private companies in China.

The data in Panel A points out that in China private companies are more likely to engage with full acquisitions whereas state-owned acquirers prefer partial deals. This echoes other studies that argue that Chinese state-owned firms are more risk averse.

Panel B indicated that Chinese companies have a much higher tendency to pay by cash. It is not surprising that China SOEs are linked to cash deals as predicted by the VIS and other literature on Chinese state ownership. In China BG-affiliated firms are less likely to engage in cash acquisitions. One plausible reason could be agency theory which argues that BG-affiliated firms in particular family firms are more risk-averse.

Similar to the data in Brazil, Panel C indicates that Chinese non-state companies tend to engage in industrial diversification into other industries. This is also in line with studies that SOEs might have non-economic goals such as the provision of goods and services, thus diversification is not as important for SOEs.

Comparing micro-data for Brazil and China

To conclude, the micro-level results above indicate that emerging markets have initial conditions that would impact institutional profiles at home and host country location choices. In this part, some key comparisons would be made comparing micro-findings with the VIS framework. Firstly, in terms of institutional configuration, our deal-level results are in line with the VIS framework that categorized Brazil as family-led and China as state-led. Our findings support the view that institutional systems provide financial capital and key resources at home and in OFDI.

Secondly, in terms of host country location choices, in the VIS framework, both Brazil and China are categorized as having low levels of knowledge capital. It is predicted that both Chinese and Brazilian companies would seek strategic assets that are not available at home. Our micro-level study documents that while Brazilian firms tend to gradually expand to other neighboring countries, Chinese MNEs are more entrepreneurial and tend to adopt aggressive M&As in developed markets to strengthen their domestic and global position. Our transaction-level data point to the particular importance of knowledge-seeking and strategic-asset-seeking deals for China.

Thirdly, in terms of deal structures, Brazilian acquirers are more likely to have full acquisitions whereas Chinese acquirers are more likely to pay cash. We have also observed significant differences in deal structures depending on whether the acquirer is state-owned or belongs to a BG. The findings are summarized in Table 9 below.

INSERT TABLE 9 HERE

Conclusion

In conclusion, this paper investigates the institutional systems in Brazil and China and examines how these home country institutional factors translate into firm characteristics such as ownership type, state provision of capital and social capital. Our results document that there are significant differences between deal structure and location choices for Brazilian and Chinese companies in international acquisitions and the VIS system provides some explanations on the OFDI at the country level as well as location choices and deal motivations in foreign markets.

Theoretical contribution

The growing interest in institution-firm linkages has produced calls for an institutional theory of strategy (Oliver, 1991). Jackson & Deeg (2008) has criticized International Business scholars for adopting a thin and variable-based approach to institutions where firms are seen as unitary rational actors and institutions largely constrain rational firm-level decisions. The conceptualization and findings of the chapter will contribute to the literature on EM MNEs by studying how cross-country institutional systems would influence both aggregate OFDI patterns at the macro level and firm behavior at the transaction level. Thus contributing to the varieties of capitalism literature. Previous studies debated whether a new theoretical framework is needed for analyzing EM MNEs. Using the VIS framework, we find that Brazilian and Chinese home country institutional environments play an important role in OFDI and CBAs.

Empirical contribution

First of all, the empirical contribution of the chapter is a unique dataset to compare and contrast two selected types of firm ownership characteristics: BG affiliation and SO. Methodologically, we attempt to move beyond prior studies that look at firm-level and country-level variables to study the motivation and the institutional environment of EM MNEs. The perspective of institutional comparative advantage emphasizes that institutional transformation can lead to variations in firms' ability to develop strategic resources and organization capabilities (Martin, 2014). By using a two-country comparative analysis, we are able to examine the issue of CBAs more closely and in greater detail.

Generalizability

It is worthwhile to examine Brazil and China in a comparative manner. As part of the "BRICS" country BRICS (the countries of Brazil, Russia, India and China and South Africa), and the largest economy in the Latin American economies, Brazil and China offer interesting institutional settings that have undergone and still enduring tremendous changes.

There are homogeneities between Brazil, China and other emerging markets. From an institutional view, Brazil is generally classified as having burdensome tax and regulatory requirements¹, these characteristics are typical for emerging countries (Stal & Cuervo-Cazurra, 2011). Although the empirical context is Brazil, the results may be generalized to other emerging markets with similar institutional environments and firm structures. Brazil also has distinct features compared to other EMs. Competitive advantages such as cheap labor costs are generally considered important for developing EMNCs linked to outsourcing centers and international trade. However, in the case of Brazil, labor costs and price levels are high (Andreff, 2015). Compared to other EMs, the economic growth of Brazil is not as impressive as countries such as China and India. But Brazil has advantages such as rich in resources such as oil as well as alternative energy sources.

The results can potentially be generalized to other emerging markets with similar characteristics in the institutional environment and similar characteristics of firm ownership structure. For example, the corporate governance regime of weak external monitoring and concentrated ownership is common also in China and India. The role of business groups and local connections is prominent in other emerging countries as well.

To conclude, this paper examines the institutional factors that could potentially influence OFDI and CBAs in the context of Brazilian and Chinese firms. Our findings at both the country-level and micro-level support the VIS framework.

¹For more information, see <http://www.state.gov/e/eb/rls/othr/ics/2012/191115.htm>

List of Tables

Table 1 Comparing institutional dimensions of the VOC, NBS, and VIS frameworks

Table 1

Institutional contextual dimensions of the VOC, NBS, and VIS frameworks.

Institutional dimension	VOC	NBS	VIS
Role of the state			
Direct state dominance			✓
Indirect intervention in private sector		✓	✓
Type of state ^a			✓
Role of financial markets			
Equity market	✓	✓	✓
Credit market	✓	✓	✓
Family wealth			✓
State-provided capital		✓	✓
Role of human capital			
Coordination with labor	✓	✓	✓
Knowledge capital		✓	✓
Role of social capital			
Generalized trust		✓	✓
Role of corporate governance			
Ownership concentration	✓	✓	✓
Family ownership		✓	✓
Family intervention in management			✓

Notes: ^a—Regulatory, welfare, developmental, and/or predatory. VOC = Varieties of Capitalism; NBS = National Business Systems; VIS = Varieties of Institutional Systems.

Source: Fainshmidt et al., 2018, p.309

Table 1b A description of the VOC, NBS

Theory	Focus	Arguments	Countries studied
The VOC literature (Hall & Soskice, 2001)	Focuses on the different ways in which capitalist economies are organized and coordinated, particularly in terms of the relationship between firms, labor, and the state	It divides countries into liberal market economies and coordinated market economies. LMEs rely on the market mechanisms; CMEs rely to a larger extent on mutual cooperation among economic actors facilitated by the dense network. The VOC system	Countries such as Austria, Belgium, Denmark, Finland, Germany, Japan, the Netherlands, Norway, Switzerland, and Sweden are generally considered to resemble

		subsequently analyzes how firms have access to equity market, capital markets and labor markets.	CMEs, whereas English-speaking countries resemble LMEs (Hall & Soskice, 2001)
National Business System (Whitley, 1999/2003)	Studies a set of interlocking structures and institutions in different spheres of economic and social life that combine to create a nationally distinct pattern of organizing economic activity (Whitley, 1999).	compares economies as different kinds of systems of economic organization and focuses on four main dimensions: (1) the role of the state in the economy; (2) the type and development of financial markets; (3) the nature of the education system and the labor market; (4) the presence of informal norms pertaining to social capital (Whitley, 1999).	Fragmented business systems when trust is low and financial capital is scarce; collaborative business systems benefit trust. Germany, Japan, U.S., U.K.

Source: the author

Table 2 A comparison of Brazil and China using the variety of institutional system framework

	State direct dominance	State indirect intervention	Type of state	CWL	KC	EM	CM	FW	SPC	GT	OC	FO	FIM
Brazil	Yes	Yes	Developmental	Low	Low	Yes	Yes	Yes	No	Low	Yes	Yes	High
China	Yes	Yes	Developmental and Predatory	Low	Low	No	Yes	No	Yes	Low	Yes	Yes	High

EM = equity markets, CM = credit markets, FW= family wealth, SPC = state-provided capital, CWL = coordination with labor, KC = knowledge capital, GT = generalized trust, OC = ownership concentration, FO = family ownership, FIM = family intervention in management.

Source: Fainshmidt et al. (2018), p.314

Institutional configurations	Explanations
State-led	Strong government intervention in the economy, with state-owned enterprises playing a dominant role in key sectors.
Fragmented with Fragile State	Significant institutional voids and a fragmented business environment, with limited formal institutions and a high degree of informality.
Family-led	dominant family-owned firms that control key industries, creating opportunities for innovation and rapid decision-making, but also leading to nepotism and wealthy families driving the economic agenda.

Centralized Tribe	a strong tribal or ethnic identity that shapes economic behavior, creating opportunities for trust and cooperation within the community, but also leading to exclusion and limited opportunities for outside firms.
Emergent LME	move towards a more liberal market economy, with greater private sector involvement in key industries but coordinated by the state, creating opportunities for growth and innovation, but also leading to challenges related to regulation and market competition.
Collaborative Agglomerations	the state being developmental, providing growth-focused policies and investment.
Hierarchically Coordinated	a strong hierarchy of firms in which large, dominant firms set the rules for smaller, subordinate firms. This can create opportunities for learning and innovation, but also leading to limited opportunities for smaller firms to grow and compete.

Note: The configurations are developed by Fainshmidt et al.2018, summarized by the author

Table 3 Ownership identities of Brazilian acquirers

	Number of deals	Percentage /Number
Government	57	9.95%
Business Group	303	52.9%

Note: A total number of 573 Brazilian deals

Table 4 Top 10 host countries for Brazilian CBA deals

Brazil	Percentage
Argentina	16.6%
United States	15.0%
Portugal	7.0%
Chile	5.1%
Uruguay	5.1%
Peru	4.4%
Colombia	4.2%

Table 5 Deal characteristics by Brazilian BG and SOEs

BG			SOE		
Panel A: full versus partial equity ownership					
Full acquisitions- BG affiliated	114	37.6%	Full acquisitions- State	19	33%
Full acquisitions- non BG affiliated	159	58.9%	Full acquisitions- non state	254	49.22%
Panel B: cash versus non-cash payment					
Cash deals BG affiliated	89	29.4%	Cash deals- State	9	15.8%

Cash deals Non-BG affiliated	47	17.4%	Cash deals-non state	127	24.6%
Panel C: industrial diversification					
Diversification- BG affiliated	208	68.7%	Diversification- state	38	66.7%
Diversification- non BG affiliated	194	71.9%	Diversification- private	364	70.5%

Table 6 Ownership identities of Chinese acquirers

China		
	# of deals	Percentage /Number
Government	87	69.6%
Business Group	29	23.2%

Note: A total number of 125 Chinese deals

Table 7 Host countries of Chinese CBAs

China	Percentage
Hong Kong	40.8%
Australia	13.6%
Canada	13.6%
United States	12.8%
Singapore	4.8%
United Kingdom	4%
Japan	1.6%

Table 8 Deal characteristics by Chinese BG and SOEs

BG			SOE		
Panel A: full versus partial equity ownership					
Full acquisitions- BG affiliated	6	20.7%	Full acquisitions- State	17	19.5%
Full acquisitions- non BG affiliated	22	22.9%	Full acquisitions- non state	11	28.9%
Panel B: cash versus non-cash payment					
Cash deals BG affiliated	13	44.8%	Cash deals- State	52	59.8%
Cash deals Non-BG affiliated	57	59.4%	Cash deals-non state	18	47.4%
Panel C: industrial diversification					
Diversification- BG affiliated	15	51.7%	Diversification- state	61	70.1%

Diversification-non BG affiliated	75	78.1%	Diversification-private	29	76.3%
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Table 9 A summary of similarities and differences of micro-level data

	Brazil	China
Acquirer ownership identities	- Percentage of BG affiliation is much higher in Brazil compared to China - State ownership play an important role in Chinese acquirers	
Host country selection	- Chinese acquirers prefer developed countries while Brazilian acquirers prefer Latin American and developed countries - Both Chinese and Brazilian SO acquirers are less likely to purchase developed countries targets Different for Brazil and China: BG affiliated firms in Brazil and non-affiliated firms in China are more likely to acquire developed countries targets	
Deal structure: Full versus partial deals	- Percentage of full acquisitions is higher in Brazil - BG affiliated acquirers by both China and Brazil prefer partial acquisitions. - Non SO private firms in Brazil and China are more likely to have full acquisitions	
Method of payment: cash versus non-cash payment	- Percentage of cash payments is much higher in China compared to Brazil Different for Brazil and China: - BG affiliated firms in Brazil and non-affiliated firms in China are more likely to have cash payments. - Percentage of cash payments is much higher in China compared to Brazil for both SO and private firms Different for Brazil and China: Private acquirers in Brazil and State owned firms in China are more likely to pay cash.	
Likelihood of deal diversification	- In both Brazil and China non-BG affiliated acquirers are more likely to diversify - In both Brazil and China, non-state firms are more likely to diversify	

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