Investment motives, ownership advantages and institutional distance: An examination of Russian cross-border acquisitions

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ABSTRACT

We apply the OLI framework, first, to examine the motives of Russian cross-border (CB) M&A activity in the period 2007–2013 and, second, to analyze the ownership preferences of Russian multinationals abroad. We test our first set of models using panel data of 322 country/year observations and the second set of models using cross-sectional firm-level data of 318 M&A deals. Our analysis shows that traditional investment motives provide a limited explanation of what attracts or deters Russian acquirers abroad. We extend our base-model to include institutional distance and find that it plays a critical role on Russian CB M&A activity. As a second step, we employ state ownership as a specific type of institutional ownership advantage and discover that partial state ownership discourages Russian firms from pursuing full-ownership in CB M&As. Moreover, Russian multinationals benefit from internalization advantages (full M&A ownership) in tandem with location advantages derived from natural resource endowments.

1. Introduction

In the period 1999–2004 outward FDI (OFDI) from Russia grew at unprecedented speed from 9.5 billion to 90.8 billion USD, mostly through cross-border (CB) M&As. Despite its challenges in securing stable economic development and market-economy transition, Russia became one of the 20 largest investors in the world by reaching 369 billion USD foreign direct investment in 2010. Several studies tried to explain this "Russian paradox" by putting to test existing paradigms of international investment (Andreff, 2002; Kalotay, 2005, 2008; Liuhto, 2005). However, scholars typically examined the investment strategies of a few large corporations, like Lukoil, Gasprom, Severstal, Norilsk Nickel and produced mostly descriptive studies (Kuznetsov, 2010, 2011; Liuhto, 2005; Panibratov & Kalotay, 2009; Panibratov, 2010; Vahtra, 2007; Vahtra & Liuhto, 2004). As Russian multinationals gain more prominence, the motives and strategic implications of their foreign investments deserve more scrutiny and further analysis. We contribute by advancing knowledge on investment motives and location choices of Russian firms—a highly relevant study especially because current literature on internationalization of emerging market (EM) firms is mostly focused on China and India (Alon, Yeheskel, Lerner, & Zhang, 2013; Buckley et al., 2007; Child & Marinova, 2014; Cui, Meyer, & Hu, 2014; Deng & Yang, 2015; Gaur, Kumar, & Singh, 2014; Jain, Hausknecht, & Mukherjee, 2013; Ji & Dimitratos, 2013; Kang & Jiang, 2012; Kolstad & Wiig, 2012; Li & Xie, 2013; Lu, Liu, Wright, & Filatotchev, 2014; Meyer, Ding, Li, & Zhang, 2014; Ramasamy, Yeung, & Laforet, 2012; Wang, Hong, Kafouros, & Wright, 2012; Xue, Zheng, & Lund, 2013; Yang & Deng, 2017; Zheng, Wei, Zhang, & Yang, 2014; Zhou & Guillen, 2016). Despite the strong similarities in foreign investment strategies of BRIC firms, research unveils a number of significant differences in the global investment behavior of these firms, justifying a more focused attention on Russian multinationals. For example, many consider Chinese and Russian firms alike because of their communist heritage and a transition towards "some kind of state capitalism" (Andreff, 2015: 80). However, unlike Chines multinationals actively pursuing market-seeking and to a less extent efficiency-seeking investments, Russian firms are primarily driven by strategic asset-seeking motives to acquire western technology and R&D intensive units (Andreff, 2015). In addition, the proportion of privatized and privately-owned firms among multinationals is much higher in Russia than in China (Andreff, 2015). Nevertheless, in host countries displaying politically hostile attitude towards Russia, M&A deals initiated by Russian firms may be viewed as a threat because of (mis)perceived intervention by the Russian State (Kurutz, 2014).

Traditionally, the motive of M&A transactions is seen as control over competition and improvement of productivity (Chandler, 1980). Thus, the approach to studying CB M&As reveals a predominant focus on firm-level and industry-level factors (for example, Agarwal &

Ramaswami, 1992; Brouthers, Brouthers, & Werner, 1996; Dikova, Rao Sahib, & van Witteloostuijn, 2010; Somlev & Hoshino, 2005). In an attempt to address this omission, several studies consider the impact of capital flows, product-market regulation, corporate tax rates, infrastructure and distance (for a review see Xie, Reddy, & Liang, 2017). Given that firms depend on their external environment to stabilize resource exchange and revenues (Pfeffer & Salancik, 2003), a macroeconomic focus could provide a valuable new insight into the location of Russian CB M&As. To account for both macro-economic factors and firm idiosyncrasies, we apply a modified OLI (Ownership-Location-Internalization) paradigm (Dunning, 1981, 1993). We set out to achieve two main goals—to unravel the investment motives of Russian acquirers and determine their ownership preferences in CB M&A deals. More specifically, we test whether the OLI framework adequately explains where Russian acquirers invest abroad, what specific ownership advantages they utilize in foreign markets and how that affects their internalization advantages manifested in a preference for wholly-owned acquisitions.

We implement two particular extensions of the OLI framework. Firstly, the original OLI paradigm highlights the advantages that encourage firms to go abroad and ignores the disadvantages they face when doing so (Zhou & Guillen, 2016). We extend the original four L-advantages (market, resources, efficiency and strategic assets) with the L-disadvantages created by institutional distance. By integrating the institutional distance concept (Kostova, 1996) into the OLI framework, we capture not only Russian investors' potential motivations to pursue L-advantages but also the deterring effects of specific (distant) locations. Past research suggests that the institutional complexity surrounding cross-border acquisition deals is relatively high, because they are subject to a regulatory scrutiny induced in part by bureaucratic self-interest, political extraction and private benefits such as protecting local firms (Bittlingmayer & Hazlett, 2000; Dikova et al., 2010). Deal complexity increases with distance: Russian firms need to obtain approval from host country governments to acquire local firms so the costs they would incur in the process are likely related to institutional distance (Zhou & Guillen, 2016).

Second, we acknowledge the criticism of OLI framework's ability to explain internationalization of emerging market firms (EMNEs) due to its focus on O-advantages which such firms do not possess. We follow the approach of Lundan (2010) who separates ownership advantages into categories and thus improves the applicability of the theory to EMNEs. The type of advantage most applicable to Russian internationalizing firms is "superior (and possibly monopolistic), and who may enjoy preferential political access (Oi)" (Lundan, 2010: 61–62). This unique advantage is state-ownership, a form of institutional advantage (Oi) such as government-imposed incentive structures and enforcement mechanisms. We examine the role of state ownership in ownership (internalization) choices of Russian acquirers abroad.

We tested our theoretical models on data documenting Russian cross-border M&A activity over the period 2007–2013, derived from open sources (e.g., international databases and national statistic agencies). We chose this period as it was marked by uninterrupted flow of Russian OFDI. The imposition of economic sanctions in 2014 related to the Crimean conflict substantially increased Russian investors' liability of foreignness and as a result, Russian OFDI decreased substantially from 2014 onwards. Our results indicate that while the original four L-factors were not a good predictor of Russian CB M&A motives, cultural and formal institutional distance revealed a stronger yet divergent effect. We accounted for industry effects because companies operating in oil and metallurgy industries are predominant among Russian multinationals for both political and economic reasons—these sectors are not only key to the Russian economy and likely supported by the state but also only few companies outside these sectors are capable of accumulating funds sufficient for large foreign acquisitions (Kuznetsov, 2011). In line with predictions of the OLI framework we observed internalization and location advantages for Russian acquirers in resource-

intensive industries in particular. Contrary to theory predictions, state-ownership did not indicate internalization advantages (i.e., a preference for full ownership). However, partial state ownership discouraged Russian firms from pursuing full ownership in CB M&A deals.

2. Theory

Over the years, Dunning's OLI paradigm explaining the origin, pattern, and growth of cross-border activities has developed into perhaps the most dominant paradigm in international business studies (Eden & Dai, 2010). According to this paradigm, *Ownership advantages* (Oa) compensate for the liabilities of foreignness (Hymer, 1976; Zaheer, 1995), allowing firms to successfully compete with indigenous firms and other MNEs. *Location advantages* (L) are represented by the comparative cost of country-specific inputs (e.g., materials, labor, natural resources and technology) and the final advantage, *Internalization advantage* (I), is a transaction attribute that applies in the case when the firm prefers to exploit its ownership advantages internally, rather than by licensing or collaborating with a local partner.

The applicability of the OLI framework in the case of emerging market (EM) firms' internationalization has been largely criticized (e.g., Amighini, Cozza, Giuliani, Rabellotti, & Scalera, 2015; Goldstein, 2007; Moghaddam, Sethi, Weber, & Wu, 2014; Mathews, 2002, 2006; Ramamurti, 2012). According to Goldstein (2007) for example, as the EM multinationals do not possess the same competitive advantages as developed market MNEs, their internationalization cannot be explained by the benefits generated by ownership advantages. Mathews (2002, 2006) points out that EM firms typically internationalize in order to acquire (rather than exploit) new strategic resources and thus strengthen their position. Furthermore, EM multinationals accelerate the internationalization process as a way of catching up globally, and therefore they either engage in joint ventures or launch partial acquisitions as a mean of mitigating of internationalization risk (Mathews, 2006). Yeganeh (2016) notes that these peculiarities are inconsistent with the OLI framework, which is derived from the concept of ownership exploration and incremental internationalization.

Recent studies applying the OLI framework note that ownership advantage does not necessary originate in the investing firm's home country, but rather may be acquired and augmented abroad (Buckley & Hashai, 2009). Furthermore, in the latest developments of the OLI theory (Dunning & Lundan, 2008) a new dimension of ownership advantages has been added, the institutional ownership advantage (Oi). The Oi "incorporate firm-specific norms and values guiding decision-making, as well as an imprint of the institutional environment of the home country" (Eden & Dai, 2010: 27). One specific Oi, the home-country government direct ownership of the firm, plays a profound role in the activities of EM firms (Cuervo-Cazurra & Genc, 2008; Le & O'Brien, 2010; Ramaswamy, Li, & Veliyath, 2002). Firms with government ownership have a privileged access to resources unlike firms without government ownership (Pan et al., 2014). The government typically provides financial aid to avoid bankruptcy so firms with higher government stake can better withstand risks and uncertainties in foreign countries as opposed to firms with lesser or no government ownership (Cui & Jiang, 2012; Morck, Yeung, & Zhao, 2008). Past research has found that government ownership translates into government protection and involvement, which in turn enhances the bargaining position of EM firms when negotiating with foreign partners (Xia, Ma, Lu, & Yiu, 2014).

As Russian firms typically suffer from latecomers' disadvantages, they would likely use CB M&As for a quick access to global brands, technologies and markets. In our first step of theorizing we examine the four-fold motives of Russian firms to engage in cross-border acquisitions by means of acquiring ownership advantages (e.g., market-seeking, resource-seeking, strategic asset-seeking and efficiency-seeking motives) however we develop our theory and hypotheses to account for the role of institutional distance (North, 1990) on Russian firms'

motives to engage in CB M&As. In our second step of theory development, we specifically examine the impact of Oi on the ownership structure of Russian CB M&As - the likelihood of internalizing foreign production by engaging in wholly-owned M&As.

3. Hypotheses development

3.1. Strategic motivations for cross-border M&As

3.1.1. Market-seeking M&As

Large markets attract M&A deals because of the possibility to benefit from economies of scale in production and distribution of goods and services in the host market (Kyrkilis & Pantelidis, 2003; Tolentino, 2010) and agglomeration economies that can reduce the costs of all producers in that market (Dunning, 2009). After the fall of communism, Russian companies suffered from substantially reduced interest in their goods and services in many traditional markets in the Eastern European countries. In order to maintain productivity levels and secure long-term profitability, many Russian firms had no choice but to seek new markets with greater and more sustainable opportunities. Larger markets are attractive for investors generally, because they provide both greater demand for goods and services, and greater supply of inputs (Rasciute & Downward, 2017). Because the host market represents a pool of resources that potential foreign acquirers can leverage through flows of assets, information and legitimacy, larger markets are not only associated with an increased possibility for M&A deals (Gaffney, Kedia, & Clampit, 2013; Karney, 2012) but they also provide Russian firms with the opportunity to gain fast access to a broad customer base.

CB M&As can be an efficient way for Russian firms to gain more power and control over new markets and ensure less dependence on the home market (Pfeffer & Salancik, 2003). Furthermore, acquiring targets in larger markets allows Russian firms to use these as a base to export to smaller markets in the region: by concentrating production in one place, they can simultaneously realize economies of scale and minimize transportation costs (De Beule & Duanmu, 2012). Furthermore, larger market size (e.g. GDP) typically reflects the financial wealth of the host country and can be associated with the possibility for Russian firms to develop new firm-specific advantages through local acquisitions (Di Giovanni, 2005; Nicholson & Salaber, 2013). We expect that market size will be associated with a higher number of CB acquisitions initiated by Russian firms. Thus,

H1a. There is a positive association between host country market size and the number of Russian CB M&A deals

3.1.2. Resource-seeking M&As

Resource-seeking drivers of foreign investment are important to consider because firms rely on resource availability for future economic activity (Deng & Yang, 2015). Firms resort to CB M&As as a way to cope with environmental uncertainty and absorb more (or cheaper) resources (Pfeffer & Salancik, 2003). A focus on resource-drivers of acquisitions is critical because CB M&As require matching the resources provided by the target firm with the need of the acquirer (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). We expect that resource-rich countries would be preferred as investment location by Russian acquirers because a large number of Russian firms are active in resource-intensive industries that are of critical importance for the home economy. Literature on EM MNEs found that they engage in resource-seeking investments due to increased demands for their products both at home and overseas (De Beule & Duanmu, 2012). Similarly, Russian firms like non-ferrous metal producers Norilsk Nickel and Alrosa have already either faced the growing cost of mining in the Russian Federation or have discovered that domestic extraction volumes are insufficient to improve processing capacity (e.g., UC Rusal). International diversification of the resource base has become vital for large Russian oil and gas companies—a steady supply of inputs at stable

prices has become essential to their production processes. The Russian state has indirectly supported internationalization of large privatized corporations in resource-intensive industry sectors (McCarthy, Puffer, & Vikhanski, 2009). Perhaps an explanation for this is the fact that many state-owned enterprises at the time of the Soviet Union were vastly dispersed geographically to access various natural resources. After the dissolution of the Soviet Union many of these firms' assets appeared in new sovereign states so many CB M&As were launched as consolidation attempts (King, Hill, & Cornforth, 1995) and securing a continuous supply of natural resources. As this is critical for many Russian firms, the number of Russian CB M&As will be positively associated with a host-country's availability of natural resources. We have

H1b. There is a positive association between host country natural resource-endowment and the number of Russian cross-border M&A deals.

3.1.3. Strategic-asset-seeking M&As

Knowledge seeking investment is undertaken in order to develop new advantages and/or to upgrade existing ones. In information-intensive industries, various kinds of knowledge, both tacit and codified, replace physical assets as the most critical resources (Nachum & Zaheer, 2005). Knowledge-seeking drivers stem from a desire to gain quick access to technological innovations, advanced marketing, and management know-how through foreign acquisitions. Past studies suggest that patent-protected technology and managerial knowhow create major motivations for EM firms to engage in CB M&As (Jullens, 2013; Rabbiossi, Stefano, & Bertoni, 2012). Many have resorted to aggressive acquisitions in order to access novel product technology, established brand names and distribution networks abroad (Nicholson & Salaber, 2013; Su, 2013).

A large number of Russian MNEs operate in traditional, resource-intensive industries characterized by mature technologies. However, we do not exclude the possibility that M&A by Russian firms in resource-intensive sectors are also partly motivated by technology-access opportunities. For example, Lukoil aims at acquiring specific proprietary assets, including exploration and enhanced oil and recovery technology, as well as modern oil-processing technology (Kalotay & Panibratov, 2013). Firms active in sectors such as the automotive industry, telecommunication and other (e.g., GAZ Group and Vympelcom) are likely to engage in CB acquisitions that would grant them access to advanced technology, strategic assets such as brands and local distribution networks, or other strategic capabilities abroad. Therefore, we propose

H1c. There is a positive association between host country strategic (knowledge-based) asset endowment and the number of Russian cross-border M&A deals.

3.1.4. Efficiency-seeking M&As

Vertical, efficiency-seeking FDI aims at producing intermediate or final goods in the cheapest locations, primarily for export to other markets (Dunning, 1993). Therefore, efficiency-seeking investment is driven by the intention to spread value-adding activities geographically in order to take advantage of differences in the availability and the cost of production factors in different countries (Nachum & Zaheer, 2005). Essentially this is a decision of the firm how best to configure its activities internationally, in line with the comparative advantage of different locations (Zaheer & Marakhan, 2001), and in order to maximize efficiency and reduce costs. Thus, the foreign investment is said to be efficiency-seeking when the firm can gain from the common governance of geographically dispersed activities in the presence of economies of scale and scope.

This motive has led to a flow of capital typically from high-wage industrialized countries to low-wage developing countries (Eckel, 2003). This trend has been also boosted by advances in technology

which makes it possible for MNEs to "slice up the value –added chain" (Krugman, 1995, p. 333) and organize production globally. As a consequence multinationals tend to relocate mainly labor–intensive manufacturing processes from high-wage countries to low-wage countries (Feenstra & Hanson, 1997; Lemoine, 1998; OECD, 1995). Thus, the profitability of a firm investing abroad is expected to be higher if the labor costs are lower in the chosen host country than in another alternative location (Barrel & Pain, 1999). Moreover, the spread of activity geographically involves a great deal of coordination and knowledge transfer, hence by reducing the costs through accessing cheaper labor Russian firms can increase their potential for value-adding activity abroad. Furthermore, locational advantage induced by low wages increases the prospects of low production costs for Russian manufacturing firms especially those investing in traditional sectors (Rasciute & Downward, 2017). We expect that Russian MNEs engage in efficiency seeking M&As in target countries with relatively low wage-rates. Thus

H1d. There is a positive association between host country (low) labor costs and the number of Russian cross-border M&A deals.

3.2. Institutional distance and Russian CB M&As

Institutional theory postulates that multinational firms need to confirm to various institutional pressures in order to establish legitimacy in the host nation, which in turn helps them to ensure subsequent business success and continued market survival (Dikova et al., 2010). Institutions provide formal and informal rules of the game in any given economy, governing the behavior of economic agents in the society (North, 1990). Formal institutions thus comprise of rules, laws, and practices in a given society, and informal institutions encompass implicit values and norms of culture, language and society (Contractor, Lahiri, Elango, & Kundu, 2014). Both formal and informal institutions vary across nations. For example, regulations are less restrictive in some nations and more restrictive in others (Ang & Michailova, 2008); they can be more exhaustive, clearly presented and better enforced in some nations (e.g., the USA) than in others (e.g., China and India) (Chao & Kumar, 2010). Regardless of the importance of the institutional context, its effect on CB M&As has been sparsely researched (Contractor et al., 2014; Ferreira, Santos, Almeida, & Reis, 2014).

CB M&A deals are associated with a great deal of complexity and uncertainty because of the need to pass major procedural hurdles. For example, CB M&As have to comply with domestic and international regulations, such as antitrust laws and procedures for merger/acquisition evaluations (Dikova et al., 2010). Governments and supranational organizations like the European Commission have long been keen on preventing corporate-market dominance by regulating the M&A deals through antitrust legislation (Finkelstein, 1997). The institutional complexity of CB M&A deals is significant because these deals are subject to a regulatory scrutiny induced by bureaucratic self-interest, political extraction and private benefits such as protecting local firms (Bittlingmayer & Hazlett, 2000). The national institutional context in which Russian, and EM firms in general, operate is a key driver of their ways of organizing, conditioning their practices and members' understandings as well as constraining their organizational choices (Mtar, 2010). Acquirers will typically understand and adjust more easily to an institutional environment that is similar to the one in their home country (Kostova & Zaheer, 1999). For instance, the pressure for compliance with host-country rules and laws that Russian acquirers cannot easily comprehend may deter them from engaging or completing otherwise lucrative M&A deals. We consider the possibility of Russian firms incurring additional costs from unfavorable treatment by the host government when multinationals try to acquire location-bound resources (Zhou & Guillen, 2016). We stipulate that in institutionally developed host countries, governments may increase costs (for Russian firms) by imposing strict rules and regulations (Meschi, 2009) or propel

biases against Russian firms, which reduce the legitimacy of Russian firms in the foreign country (Brouthers, O'Donnell, & Hadjimarcou, 2005). In sum, the distance between Russia and the host-country institutional context will exaggerate the complexity of the M&A transaction and increase costs for Russian acquirers, we have:

H2. There is a negative association between institutional distance and the number of Russian cross-border M&A deals.

3.3. Government ownership

Research on EM firms' internationalization has highlighted the important role of home-country governments in directing and supporting the internationalization activities of domestic firms (Buckley et al., 2007; Yamakawa, Peng, & Deeds, 2008). Government support can "grant firms resource advantages in overseas investment to compensate for their lack of firm-specific advantages "(Cui & Jiang, 2012: 267). In many instances, the competitive advantage of EM MNEs is linked to the support they receive from their national governments (Goldstein & Pananbond, 2008; Peng, 2002). Lundan (2010) revised the original OLI framework by proposing different types of ownership advantages. In addition to the traditional intangible asset advantages, the author suggests that a specific type of advantage (Oi) has ability to reduce costs or intra- and inter-firm transactions (Lundan, 2010). Some Oi advantages resemble intangible Oa but they relate specifically to the expectations and limits of the institutional framework. Specifically, Oi involve the ability to manage challenges arising from the non-market domain and contribute to the mixing of the boundaries between public (state) and private (firm) domains (Cantwell, Dunning, & Lundan, 2010).

In the case of Russian state-owned firms, their organizational capabilities are not higher than average but their Oi are superior and monopolistic, and they likely enjoy preferential political access (Lundan, 2010). When making strategic decisions, managers of state-owned firms may consider the possibility that further support, either formal or informal, will be available in unexpected adverse circumstances (Cui & Jiang, 2012). This in turn would influence risk perception, and would lead managers to downplay the role of risks in foreign investment (Buckley et al., 2007). Firms with higher level of state ownership have access to government funding and can often borrow money on better terms in the open markets (Garcia-Canal & Guillen, 2008). When such firms invest abroad, they have access to the support and assistance of home government offices located in the foreign countries such as commercial consulate offices (Buckley et al., 2007). With government support and the ability to access below-market cost of capital, government-owned firms are able to bear short-term loss while pursuing rights to future gains through sole ownership (Cui & Jiang, 2012).

In contrast, Russian firms with lower levels of (or lacking) government support are worse off mitigating transaction costs associated with foreign direct investment (Pan et al., 2014). Firms with lower levels of state ownership (and support) are more resource constrained (Child & Rodriguez, 2005) and cannot so easily access the resources controlled by the government (Huang, 2003). Such firms are naturally more risk-intolerant and hence likely to value the risk-sharing benefits of joint-ownership in cross-border M&As. In the case of Russian firms' internationalization, we suggest that firms with lower (or no) state ownership would likely prefer partially-owned M&As while state-owned firms are likely to opt for full ownership in CB M&As.

H3. There is a positive (negative) association between full (partial) state ownership and the likelihood of Russian firms choosing wholly-owned CB M&As over partially-owned CB M&As.

4. Data, variables and methods

Data sources for this study include ZEPHYR Bureau van Dijk database, OECD database, World Bank reports, The Central Bank of Russian Federation – for data on Russian FDI, Thomson Reuters Eikon – for macroeconomic data, Transparency International web site for CPI index. In our analysis we use two-stage analysis, where we, firstly, explore the interrelations on macro-level (country-level) and, secondly, we address the relationships on a micro-level (firm-level). Considering our research design, we use two related datasets. The first sample includes the data related to all M&As deals made by Russian companies in 46 countries during 2007–2013 and recorded in ZEPHYR Bureau van Dijk database. We applied data sources triangulation to receive sufficient verification and increase validity. Thus, we collected the data for every year within the period 2007–2013 (7 years in total) for each of 46 countries and this provided us with a dataset of panel data with 322 country/year observations. To create the second data sample, particular deals from the first sample were identified and additional data about acquiring firms were collected. The second dataset includes cross-sectional firm-level data. The final sample accounted for 318 deals due to the fact that in some countries in some particular years there were no M&A deals at all. Moreover, we excluded a few observations due to some missing information, which did not significantly change the quality of our data and the reliability of our results considering the random nature of the missing values.

To test our hypotheses we use two different models (Fig. 1). Our first model uses the number of Russian CB M&A as a dependent variable. It is measured as a number of annually completed M&A deals in each host market for the period 2007–2013. An increasing number of studies use this approach, rather than the total value of M&As, in the examination of M&A deals in emerging markets (e.g., Deng & Yang, 2015; Lin, Peng, Yang, & Sun, 2009; Zhang, Zhou, & Ebbers, 2011). This approach shows the overall level of M&A activity, it allows the adoption of more accurate data and ultimately increases the validity of the results. Our second model employs a type of M&A deal as a dependent variable, i.e. a fully-owned or partially-owned acquisition (Agarwal & Ramaswami, 1992; Luo, 2001; Madhok, 1998). According to the OLI model, a fully-owned acquisition reveals the benefits of internalization. Our dependent variable is binary where '1' stands for full ownership and '0' - for partial ownership. Based on relevant past literature, we include a considerable number of independent and control variables. The summary of all variables is presented in Table 1.

Due to the nature of our first dependent variable (number of M&As), we use non-negative integers, i.e. count data. Linear regression does not take into account discreteness, non-negativity and specific statistical distribution of count data. Hence, it makes linear regression inappropriate for the analysis. Count data could be processed with Poisson regression or Negative binomial regression. Negative binomial regression is preferable due to its advantages over Poisson regression, for example, it concedes the variance in the rate of underlying process across observations according to a gamma distribution (Agresti, 2013; Cameron & Triverdi, 1998; Hilbe, 2007). This is also confirmed by the value of dispersion parameter alpha which is significantly different from zero for our model (Likelihood-ratio test of alpha = 0, Chi-square = 240.60 Prob > Chi = 0.000). We lagged all the independent variables by one year so as to avoid possible endogeneity with the dependent variable. Due to the fact that our independent variables are measured in different scales and are significantly different from each other in size, we standardized all independent variables before running the models. This allows bringing all the variables into proportion to one another and comparing their effects' size.

Taking into consideration the nature of dependent and independent variables for macro-level analysis the following model is specified:

$$NumM\&A_{it} = \beta_0 + \beta_1{}_*GDPhc_{it-1} + \beta_2{}_*NatReshc_{it-1} + \beta_3{}_*PTNhc_{it-1} + \beta_4{}_*R\&Dhc_{it-1} + \beta_5{}_*Wagehc_{it-1} + \beta_6{}_*CPIDis_{i-1} + \beta_7{}_*CulDis_{i-1} +$$

$$\beta_8{}_*PIIDis_{it-1} + \beta_9{}_*GDPpcrus_{t-1} + \beta_{10}{}_*ExcR_t + \beta_{11}{}_*IntR_{t-1} + \beta_{12}{}_*CIS_i + \varepsilon_{it,}$$

where $i = 1…46$ represents host country, $t = 2007…2013$ – year, and ε_{it} is an error term that captures the amount by which our observation differs from its expected value.

To test the second model, which focuses on the interplay between home-institutional ownership advantage and internalization advantage, we run logistic regression. Logistic regression allows estimating the probability of an event to occur, i.e. estimating the influence of independent variables on the decision to make a full-ownership deal. Our logistic model is specified below:

$$log(p/1-p) = \beta_0 + \beta_1{}_*Major + \beta_2{}_*Minor + \beta_3{}_*Rev + \beta_4{}_*Size + \beta_5{}_*Ind + \beta_6{}_*Prim + \beta_7{}_*Banks + \beta_8{}_*Metals + \beta_9{}_*Others + \beta_{10}{}_*IntExp + \beta_{11}{}_*GDPhc + \beta_{12}{}_*NatReshc + \beta_{13}{}_*PTNhc + \beta_{14}{}_*R\&Dhc + \beta_{15}{}_*Wagehc + \beta_{16}{}_*CPIDis + \beta_{17}{}_*PIIDis + \beta_{18}{}_*CulDis + + \beta_{19}{}_*GDPpcrus + \beta_{20}{}_*ExcR_t + \beta_{21}{}_*IntR_{t-1} + \beta_{22}{}_*CIS_i + {}_i + \varepsilon_{it,}$$

where p is the probability that an acquirer makes a full-ownership deal.

5. Results

Table 2 presents descriptive statistics for the number of cross-border M&As by Russian companies in 2007–2013 and all variables included in our macro-level model.

Table 3 presents descriptive statistics for all continuous variables included in our firm-level model. In both tables we have some cases of high correlation between variables. In further analysis we additionally test all the models for multicollinearity. The results of these tests showed that VIF (Variance Inflation Factor) is within acceptable intervals, in most cases around 2, and never larger than 10.

Table 4 reports the results of negative binomial regression analysis. The results do not provide support to hypothesis H1a because we do not find a statistically significant positive association between market size (i.e., host country GDP) and the number of Russian CB M&As. A logical conclusion would be that Russian CB M&As are not motivated by the host-country's market size (volume). A possible explanation for the unexpected result could also be our imperfect measurement of market size. Although GDP per capita is often considered to be a better indicator of market size, we did not consider it for our analysis because GDP per capita does not necessarily mean an increase in economic volume. It could be associated, for example, with a drop in population size and vice versa.

Hypothesis H1b is rejected as our results show a significant negative association between the host country's natural resource endowment and the number of Russian CB M&As. Despite the economic predominance of Russian firms active in resource-sectors of the economy, Russian CB M&As do not seem to be primarily motivated by resource-seeking motives. It is possible that investments driven by resource-access motivations are not executed through acquisitions but through greenfields (which of course is not reflected in our data).

Hypothesis H1c is also rejected because our results show a significant negative association between R&D expenditures (as percent of host country's GDP) and the number of Russian CB M&As. The results may indicate that for Russian investors, the total amount of R&D expenditures in a host country is not necessarily an indicator of the potential technological benefits a specific acquisition in that host country may provide.

The insignificance of our alternative measure of strategic-asset seeking investment motive (Patents registered in the host country) reassures our conclusion that strategic asset-seeking motive is not a powerful explanation of Russian firms' CB M&As. Furthermore, our results show a lack of significant association between a host country's labor costs and Russian CB M&As, which fails to provide support to our hypothesis H1d. As a robustness check of our results, we replaced the variable *Average wage* with *Labor productivity* and re-ran the analysis
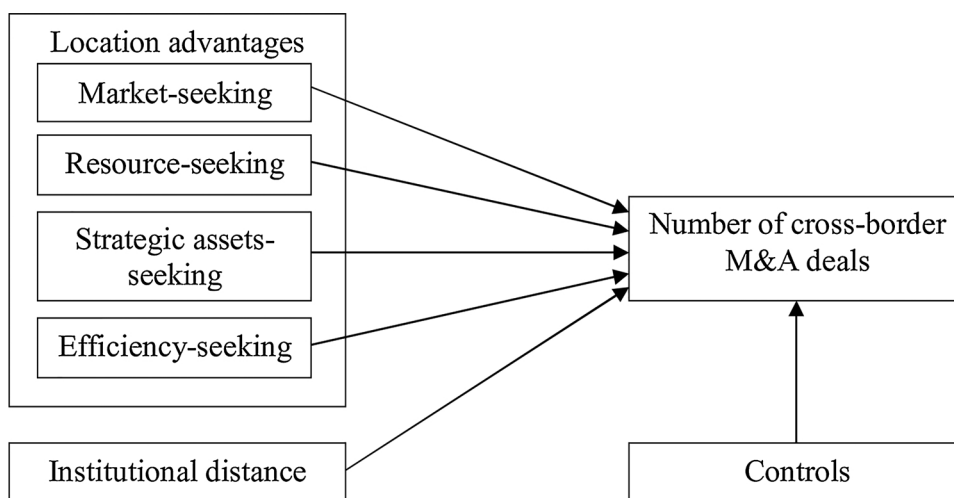
Model 1 – The relationships between company's strategic motivations, host and home country institutional distance and number of M&As made by Russian companies
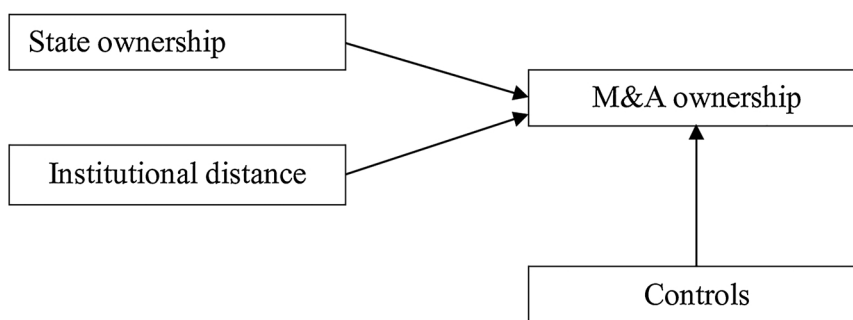
Model 2 – The relationships between company's ownership type (state-owned vs. partially state-owned vs. private) and the deal type (wholly-owned vs. partially-owned CB M&As)

Fig. 1. Conceptual models.
Model 1 – The relationships between company's strategic motivations, host and home country institutional distance and number of M&As made by Russian companies.
Model 2 – The relationships between company's ownership type (state-owned vs. partially state-owned vs. private) and the deal type (wholly-owned vs. partially-owned CB M&As).

(presented in the Appendix A). The results we obtained were similar and not providing support to our hypothesis H1d.

Hypothesis H2 suggests a negative association between institutional distance and the number of CB M&A deals. We observe a negative effect of cultural distance, which provides a partial support to Hypothesis 2. However, corruption perception distance is insignificant and contrary to our expectations, political stability distance is positively and significantly related to Russian CB M&As. Considering that political stability in Russia is estimated as relatively low, Russian investors are attracted to more distant, hence politically stable locations (e.g. in comparison to Germany's 'Political stability and absence of violence' index of 77 points in 2013, Russia scores in the same year as low as 22 points).

Table 5 presents the results of the logistic regression estimating the influence of the independent (and control) variables on the decision to internalize foreign operations, or in other words, engage in a fully-owned acquisition. Several control variables are significant in our first model (main effects). M&A deals in primary industries (e.g.,

Table 1

Independent (IV) and control (C) variables.

Variable name	Explanation	Type	Reference
GDPhc	Host market size – GDP in host country	IV	Buckley et al. (2007)
NatReshc	Natural resource endowment -% of ore, metal and fuel export in total merchandised export	IV	Buckley et al. (2007) and Kang and Jiang (2012)
PTNhc	Number of patents issued in host economy	IV	Buckley et al. (2007) and Sauvant (2008)
R&Dhc	R&D expenditures as % of GDP in host country	IV	Buckley and Casson (2009)
Wagehc	Average monthly wage in manufacturing in host country	IV	Kang and Jiang (2012)
CPIDis[a]	Annual composite index of the difference between home and host country in corruption perception	IV	Demirbag, Tatoglu, and Glaister, (2010); Robertson and Watson (2004)
CulDis[b]	Composite index calculated with Kogut and Singh (1988)'s formula of cultural distance between home and host country	IV	Deng and Yang (2015) and Kang and Jiang (2012).
PIIDis[c]	Annual composite index of the difference in political stability between home and host country	IV	Fisch (2011)
GDPpcrus	Home market size – GPD per capita in Russia	C	Rabbiossi et al. (2012)
ExcR	Exchange rate USD/RUB in Russia	C	Buckley et al. (2007)
IntR	Interest rate in Russia	C	Buckley et al. (2007)
CIS	Dummy "CIS Membership"	C	Stoian (2013)
Major	Acquirer is fully owned by the home government	IV	Zhou, Guo, Hua, and Doukas, (2015)
Minor	Acquirer is partly (minority) owned by the government	IV	Zhou et al. (2015)
Rev	Acquirer's revenue one year before deal	C	Fortune and Mitchell (2012)
Size	Acquirer's number of full-time employees one year before deal	C	Fortune and Mitchell (2012)
Ind	Dummy, target operates in the same industry as acquirer	C	Barkema and Vermeulen (1998)
Prim	Dummy, acquirer operates in primary industry	C	Yang (2015)
Banks	Dummy, acquirer operates in banking sector	C	Yang (2015)
Metals	Dummy, acquirer operates in metallurgy	C	Yang (2015)
Others	Dummy, acquirer operates in other industries than primary, banking or metallurgy	C	Yang (2015)
IntExp	Dummy, acquirer has previous experience in cross-border M&As	C	Nadolska and Barkema (2007)

[a] CPI is a common measure of formal institutional quality.
[b] National culture is a common measure of informal institutions.
[c] Political stability is a common measure of formal institutional quality.

agriculture, forestry, fishing and mining), metal and other manufacturing have a significant and positive impact on the likelihood of Russian firms opting for full ownership (as opposed to partial ownership). Our results provide partial support to Hypotheses 3; the negative and significant coefficient of our independent variable shows that Russian firms, which are partially state-owned are discouraged from obtaining full ownership in CB M&As. The significant and positive coefficient of the variable *Natural resource endowment* suggests that state ownership and location advantages related to natural resources create internalization advantages for Russian firms (i.e. a preference for wholly-owned CB M&As).

To increase internal and external validity of our results we implemented various procedures in different stages of our study. Apart from those reported above and related to data collection, research design and methods' choice, we also conducted multicollinearity tests and

several robustness checks. As collinearity diagnostics relates to the relationships between regressors, to test for multicollinearity we reran the models using linear regression and calculated VIF (Tables 6 and 7). No VIF value exceeds the widely accepted threshold value of 10. To check the robustness of our results, we used *checkrob* command in STATA, fixing "core" variables and allowing for replacements of other variables. Robustness check showed that the signs and estimates of core regressors are stable which confirms results validity.

6. Discussion

In this paper we apply the OLI paradigm to examine Russian CB M&As over the period 2007–2013. Our analysis shows what attracted Russian investors abroad or in other words what investment motives were critical for them. We moved beyond the limitations of past

Table 2

Descriptive statistics and correlation matrix for country-level model variables.

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1. Number M&As	1.44	2.56												
2. Host country GDP (bn. USD)	1045	2450	0.01											
3. Natural resources endowment (% of total merchandised export)	19.81	22.70	−0.01	−0.11[***]										
4. Number of patents	3346	7636	0.04	0.74[***]	−0.18[***]									
5. R&D expenditures (% of GDP)	1.39	1.06	−0.12[**]	0.28[***]	−0.24[***]	0.45[***]								
6. Average annual wage in host country	30094	24858	−0.06	0.18[***]	−0.06	0.32[***]	0.73[***]							
7. Corruption perception distance	3.20	2.33	−0.07	0.14[***]	−0.15[***]	0.33[***]	0.79[***]	0.88[***]						
8. Political stability distance	1.64	1.22	0.04	0.02	0.15[***]	0.18[***]	0.58[***]	0.74[***]	0.70[***]					
9. Cultural distance	17.72	17.21	−0.18[***]	0.28[***]	−0.13[**]	0.31[***]	0.73[***]	0.72[***]	0.76[***]	0.64[***]				
10. GDP per capita, Russia	11742	2202	−0.01	0.04	0.07	−0.03	0.02	0.01	−0.08	−0.01	−0.01			
11. Exchange rate, Russia	29.28	2.70	−0.06	0.02	0.03	−0.01	0.03	0.01	−0.05	−0.01	−0.01	0.30[***]		
12. Interest rate, Russia	6.28	1.24	0.04	−0.03	−0.06	0.02	−0.01	−0.01	0.06	0.01	0.01	−0.69[***]	−0.19[***]	
13. CIS membership	0.20	0.40	0.12[**]	−0.20[***]	0.11[*]	0.01	−0.47[***]	0.49[***]	0.55[***]	−0.33[***]	−0.51[***]	−0.01	0.01	0.01

* p < .05.
** p < .01.
*** p < .001.

Table 3

Descriptive statistics and correlation matrix for the firm-level model variables.

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Full-ownership M&A deal	0.61	0.49														
2. Acquirer – state-owned	0.18	0.38	-0.02													
3. Acquirer–partly state-owned	0.09	0.29	-0.04	-0.15***												
4. Corruption perception distance	3.04	2.30	0.22***	-0.09	0.08											
5. Political stability distance	1.78	0.87	0.09	-0.10*	0.09	0.57***										
6. Cultural distance	1.87	2.68	0.17***	0.08	0.04	0.56***	0.35***									
7. Host country GDP	1066	2791	0.11*	-0.07	-0.01	0.27***	-0.09	0.33***								
8. Natural resources endowment	20.47	22.09	-0.01	-0.01	0.03	-0.45***	-0.03	-0.28***	-0.14***							
9. Patents	4804	9366	0.10*	-0.05	-0.03	0.39***	0.07	0.51***	0.83***	-0.19***						
10. R&D expenditures	1.14	0.88	0.08	-0.04	-0.01	0.67***	0.29***	0.54***	0.50***	-0.40***	0.64***					
11. Average wage in host country	26463	20114	0.21***	-0.11*	0.06	0.84***	0.56***	0.54***	0.39***	-0.34***	0.42***	0.60***				
12. Acquirer revenue year before deal	6002	18200	-0.08	0.46***	-0.07	-0.04	-0.07	-0.03	0.01	0.01	0.02	0.02	-0.05			
13. Acquirer number of employees	8663	54970	-0.06	0.15***	-0.01	0.03	-0.05	-0.02	0.06	-0.05	0.07	0.08	0.07	0.16***		
14. Within industry acquisition	0.37	0.48	0.06	0.07	-0.10*	-0.03	-0.12*	0.10*	0.13**	-0.09	0.13*	0.12*	-0.01	-0.06	0.09	
15. Primary industry	0.13	0.33	0.08	0.29***	-0.01	0.01	-0.09	0.01	0.05	-0.02	0.02	0.04	0.02	0.55***	-0.03	-0.15***
16. Banks	0.14	0.35	-0.03	0.26***	-0.13**	-0.04	-0.09	-0.06	-0.10*	0.07	-0.09*	-0.07	-0.07	-0.03	0.01	0.23***
17. Metals	0.13	0.34	0.11*	-0.18***	0.12**	0.20***	0.08	0.10*	0.29***	-0.02	0.19***	0.14**	0.23***	-0.04	0.03	0.06
18. Other industries	0.46	0.50	-0.02	-0.14**	0.08	-0.14**	-0.05	-0.16***	-0.14**	-0.01	-0.13**	-0.19***	-0.14**	-0.24***	0.02	-0.16***
19. International experience	0.70	0.46	0.10*	0.23***	0.13**	0.10*	0.08	0.12*	0.09	0.01	0.08	0.07	0.10*	0.16***	0.08	0.07
20. Russian GDP per capita	11633	2101	-0.03	-0.08	-0.01	-0.11*	-0.07	0.01	-0.09	0.05	-0.11*	-0.01	-0.08	0.03	0.05	-0.04
21. Exchange rate	28.91	2.82	0.01	0.04	-0.04	-0.08	0.01	-0.01	-0.16***	-0.04	-0.13**	-0.03	-0.09	0.03	0.03	-0.07
22. Interest rate	6.43	1.26	0.07	0.05	0.11*	0.14**	0.06	0.04	0.15**	-0.04	0.10*	0.01	0.09	-0.05	-0.05	0.01
23. CIS membership	0.31	0.46	-0.25***	0.11*	-0.06	-0.80***	-0.36***	-0.45***	-0.23***	0.57***	-0.22***	-0.46***	-0.68***	0.04	-0.03	0.10*

Variables	15	16	17	18	19	20	21	22
16. Banks	-0.15***							
17. Metals	-0.15***	-0.16***						
18. Other industries	-0.35***	-0.37***	-0.01					
19. International experience	0.08	-0.01	-0.36***	-0.12**				
20. Russian GDP per capita	0.04	0.03	0.13**	0.06	-0.16***			
21. Exchange rate	0.04	0.04	-0.07	-0.03	-0.09	0.22***		
22. Interest rate	0.01	-0.07	-0.17***	0.02	0.15***	-0.69***	-0.22***	
23. CIS membership	-0.06	0.11*	-0.18***	0.07	-0.11*	-0.06	-0.01	-0.03

* $p < .05.$
** $p < .01.$
*** $p < .001.$

Table 4
Negative binomial regression results of the M&A motives by Russian MNEs.

Variables	Coefficients	Std. Err.
Host country GDP	0.18	0.14
Natural resources endowment	−0.18[*]	0.10
Patents	0.15	0.14
R&D expenditures	−0.45[**]	0.19
Average wage in host country	0.02	0.23
Corruption perception distance	0.12	0.23
Political stability distance	0.57[***]	0.15
Cultural distance	−0.46[***]	0.16
Russian GDP per capita	0.14	0.12
Exchange rate	−0.07	0.09
Interest rate	0.11	0.12
CIS membership	0.40	0.26
Constant	0,12	0.10
Log likelihood	−498.713	
Wald Chi-square	43.32	
Prob > Chi	0.000	

[*] p < .05.
[**] p < .01.
[***] p < .001.

Table 5
Logistic regression results of the probability of Russian firms making full-ownership M&A deals.

Variables	Coefficients	Std. Err.
Acquirer – state-owned	0.10	0.44
Acquirer–partly state-owned	−0.80[*]	0.47
Corruption perception distance	0.34	0.37
Political stability distance	−0.16	0.19
Cultural distance	0.28	0.31
Host country GDP	−0.11	0.31
Natural resources endowment	0.40[**]	0.17
Patents	0.13	0.30
R&D expenditures	−0.28	0.23
Average wage in host country	0.04	0.27
Acquirer revenue year before deal	−0.44[**]	0.21
Acquirer number of employees	−0.10	0.15
Within industry acquisition	0.49[*]	0.30
Primary industry	1.99[***]	0.69
Banks	0.45	0.53
Metals	1.14[**]	0.55
Other industries	0.84[**]	0.42
International experience	0.42	0.31
Russian GDP per capita	−0.04	0.19
Exchange rate	0.18	0.14
Interest rate	0.06	0.19
CIS membership	−1.08[**]	0.57
Constant	−0.43	0.48
Log likelihood	−174.919	
LR Chi^2	51.41	
Rseudo R^2	0.13	
Prob > Chi	0.000	

[*] p < .05.
[**] p < .01.
[***] p < .001.

Table 6
Multicollinearity test for the macro-level model.

Variables	Coefficients	Std. Err.	VIF
Corruption perception distance	0.29	0.38	7.49
Average wage in host country	−0.17	0.33	5.74
R&D expenditures	−0.43[*]	0.26	3.53
Cultural distance	−0.88[***]	0.24	3.12
Political stability distance	0.88[***]	0.23	2.81
Patents	0.17	0.23	2.81
Host country GDP	0.23	0.22	2.65
Russian GDP per capita	0.21	0.20	2.09
Interest rate	0.17	0.19	1.94
CIS membership	0.34	0.43	1.52
Natural resources endowment	−0.28[*]	0.16	1.27
Exchange rate	−0.14	0.14	1.12
Constant	1.37	0.16	
Adj R2	0.07		
Prob > F	0.000		

[*] p < .05.
[***] p < .001.

Table 7
Multicollinearity test for the firm-level model.

Variables	Coefficients	Std. Err.	VIF
Corruption perception distance	0.07	0.07	8.10
Patents	0.03	0.06	4.73
Average wage in host country	0.01	0.06	4.38
CIS membership	−0.26[**]	0.12	4.30
Host country GDP	−0.02	0.06	4.30
R&D expenditures	−0.05	0.05	3.05
Other industries	0.18[**]	0.09	2.80
Primary industry	0.37[***]	0.13	2.56
Russian GDP per capita	−0.01	0.04	2.26
Political stability distance	−0.03	0.04	2.24
Acquirer – state-owned	0.02	0.09	2.18
Interest rate	0.01	0.04	2.16
Banks	0.10	0.11	2.14
Metals	0.24[**]	0.11	2.07
Cultural distance	0.04	0.04	1.96
Natural resources endowment	0.09[**]	0.04	1.82
Acquirer revenue year before deal	−0.08[**]	0.04	1.79
Acquirer–partly state-owned	−0.18	0.12	1.77
Within industry acquisition	0.10	0.06	1.24
International experience	0.08	0.06	1.22
Exchange rate	0.04	0.03	1.14
Acquirer number of employees	−0.03	0.03	1.11
Constant	0.43	0.10	
Adj R2	0.09		
Prob > F	0.000		

[**] p < .01.
[***] p < .001.

research to account for potential institutional differences that may get in the way of Russian firms' investment motives. We implemented two particular extensions of the OLI framework. The first extension gave us the ability to highlight the impact of costs firms accumulate when accessing location-specific advantages. We integrated institutional distance into the OLI framework and thus captured not only Russian investors' potential motivations to pursue location advantages but also the negative effects stemming from differences in institutional checks and balances (Zhou & Guillen, 2016). The second extension addressed the criticism that the OLI framework cannot be adequately applied to EMNEs due to its focus on O-advantages, not possessed by such firms. We introduced state-ownership as a unique form of institutional

advantage (Oi) and examined its role in ownership (internalization) choices of Russian acquirers abroad. Thus, our goal was to demonstrate theoretically and empirically that an examination of the classic OLI investment motives presents a partial picture of Russian firms' location and ownership choices, but that institutional distance and institutional (ownership) advantage play an important role. We tested our model using data on Russian CB M&As for the years 2007–2013 (the period before the imposition of economic sanctions on the Russian economy).

We discovered that none of the four investment motives provided a good explanation of Russian CB M&A behavior. We stipulate that either our measures did not capture well the location-advantage constructs or that Russian acquirers were less influenced by L-advantages than suggested by the OLI framework. Different measures of institutional context showed different effects. Corruption distance, for example, was consistently insignificant which is an interesting finding considering the attention it has received in the past (see Cuervo-Cazurra, 2008; Habib & Zurawicki, 2001; Uhlenbruck, Rodriguez, Doh, & Eden, 2006, among

others). Perhaps the concept of directionality could shed some light on our results. When the investment originates from a home country scoring low on corruption (i.e. a developed economy) and is directed towards a country scoring relatively high on corruption (i.e. Russia) then corruption distance likely negatively influences the M&A deal as suggested in the past (Habib & Zurawicki, 2001; Uhlenbruck et al., 2006). However, our results reveal the opposite is not necessarily true: in the case of investments originating from Russia towards countries scoring low on corruption (i.e., institutionally distant locations), corruption perception distance had no effect on the number CB M&A deals. Our results suggest that further investigation into the relevance of corruption for CB M&As is warranted: more studies on EMNEs engaging in CB M&As should integrate corruption distance in their analysis in order to determine whether this measure of institutional context is relevant to the same extent as for developed-market MNEs investment location choices.

Cultural distance, as expected, showed a negative impact on the number of Russian CB M&A deals (Barkema, Bell, & Pennings, 1996; Harzing, 2004). Host country governments tend to associate foreign firms with negative images because of unfamiliarity (Zhou & Guillen, 2016). The greater the cultural distance, the more likely the unfamiliarity would result in the reluctance of the host country government to allow foreign investment from Russia and impose more stringent requirements on the operation of Russian MNEs. Furthermore, cultural distance adds to governance costs because Russian managers will spend more time and effort communicating to their local subordinates when they do not share the same language (Hennart, 2001).

Political stability distance, however, had the opposite effect. Our different ways of capturing institutional distance revealed that not all types of institutional differences are bad for Russian CB M&As. Political stability is a perfect example: investments originating in Russia, scoring rather low on political stability, and directed towards politically more stable locations resulted in a higher number of CB M&A deals. Unlike cultural distance which deterred Russian CB M&As, political-stability distance attracted Russian acquirers. Zhou and Guillen (2016) found that political distance increases discrimination costs for efficiency-seeking investments, not for all types of investment. Based on this particular finding, and on our results it is clear that there is a need for a more meticulous examination of the FDI-institutional context and we hope that more attempts will be made in the future to capture various nuances of institutional distance and its effect for different types of investments.

The second stage of our analysis—the application of the OiLI model to study internalization (ownership choices) of Russian firms—lead to the most intriguing discovery of our study. Although we focused on state ownership as a main type of Oi, we included in our models (as controls) a number of potential ownership advantages of Russian firms such as internationality, large size and financial strength. None of these firm characteristics were able to explain ownership (internalization) preferences of Russian MNEs. Perhaps this supports conclusions of past studies that EM firms do not really aim at utilizing ownership advantages but rather aim at accessing and appropriating foreign firms' advantages through CB M&As (Rugman, 2009). The significant effect of partial state ownership on the preference for partial ownership in CB M&As indicates a unique business approach: such Russian firms can obviously rely on some government support abroad however this support tends to be rather limited and therefore they seem to prefer cautious investment strategy over aggressive outright acquisitions.

The theory-driven expectations for a clear causal link between 100 percent state ownership and a preference for fully owned foreign acquisitions was not supported by the analysis. The significance of the control variables indicating industry effects (e.g., resource-intensive industries) suggest a plausible explanation to this unexpected finding. In the case of state-owned Russian firms' internationalization, a pursuit of a fully owned acquisition strategy may result in substantial discrimination costs, which were found to be significant in efficiency-

seeking foreign direct investments (Zhou & Guillen, 2016). The strategic importance of successfully completing such acquisition deals for the Russian firms is perhaps more important than the mere pursuit of full ownership. Irrespective of the partial support we find for our theory, we believe future considerations of Oi offer possibilities for adding more depth to our understanding of EMNEs' ownership advantages and their strategic impact abroad.

The outcome of our research could be useful to policy-makers. The Russian government should recognize the economic benefits of outward investment, in particular, for the purpose of developing and advancing Russian firms' competitiveness. Large Russian multinational companies (NLMK, Gazprom, Severstal and Rosneft) have strengthen their global market position through outward investments, by securing a global value chain, and by getting access to natural resources and large new markets. Technology-seeking outward investments on the other hand have a huge potential for an economic modernization of the domestic economy. There could be potential managerial implications of our study as well. Possible discrimination costs derived from differences (distances) in institutional context may render any location advantages inept for EMNEs' CB M&A strategy. Furthermore, institutional ownership advantages may empower state-owned enterprise management in undertaking more risky investment strategies in foreign markets and curtail possibilities for firms not supported by the home government. Thus, government support may be incremental in stimulating risky investment strategies by EMNEs in foreign markets.

We believe that the overall image of Russian firms as foreign investors can and should be improved. One way to do this is through an extension of business connections with foreign economic agents, exchange of information, conducting collaborative research about activities of Russian multinational firms and sharing the results of these studies. To improve the investment relations in particular regions, a special investment advisory council with participation of private companies could be created. The council working with the Ministry of International Affairs and Ministry of Economic Development could monitor investment flows and improve overall transparency in the region. Russian Federation should be also more active in the field of double taxation treaties (DTTs) and bilateral investment treaties (BITs), especially outside the traditional regions of Russian firms' foreign expansion.

We see two potential avenues for further research on Russian OFDI. The first direction suggests a specific emphasis on location advantages. Since ownership and internalization advantages of Russian MNEs are not only traditionally limited (which is reflected in the multiple studies on EM MNEs), and because Russian firms also face strong resistance globally due to the political reasons, the choice of investment-friendly location is paramount for Russian firms. Hence, it would be interesting to evaluate the ability of Russian investors to choose, enter and establish presence in such locations, and determine the corresponding liability of foreignness and country of origin effects. The second suggestion is to focus on the political factor and in particular the role of political ties for Russian OFDI. Since the political relationships between Russia and most western economies became more dynamic within the last decade, this aspect may provide an interesting additional explanation why Russian firms attempt to acquire assets (or not) in particular countries based on extant or historical political ties between the host country and Russia.

Our study has of course limitations mostly caused by the type of secondary data we used. Primary data could reveal more fine-grained nuances concerning investment preferences of Russian firms. The data problem we faced indicates the necessity to improve the data collection methods. This will allow for better transparency of Russian foreign investments and above all will facilitate more sophisticated research and probably more accurate business forecasts. Another limitation is our inability to collect data in relation to post-acquisition performance which could have provided some indication whether the (in)ability of the OLI framework to explain Russian MNEs location and ownership

choices in CB M&As had any implication on the subsequent performance of CB M&As. Despite these limitations, our study makes a significant contribution by conducting a systematic examination of Russian CB M&As. Building on the extended OLI framework proposed in this study, future research on Russian cross-border activities could add

to our understanding by providing generalizable and critical evidence. We believe that our study provides a point of departure from prior studies on Russian outward FDI and will inspire future research to better interpret the motives of M&As and foreign investments in general and the ownership preferences of Russian MNEs.

Appendix A. Negative binomial regression results of the M&A motives by Russian MNEs with labor productivity.[a]

Variables	Coefficients	Std. Err.
Host country GDP	0.20	0.14
Natural resources endowment	−0.18[*]	0.10
Patents	0.17	0.14
R&D expenditures	−0.46[**]	0.19
Labor productivity	−0.14	0.12
Corruption perception distance	0.16	0.19
Political stability distance	0.69[***]	0.16
Cultural distance	−0.47[***]	0.15
Russian GDP	0.14	0.12
Exchange rate	−0.08	0.09
Interest rate	0.11	0.12
CIS membership	0.46	0.27
Constant	0.10	0.10
Log likelihood	−498.09	
Wald Chi-square	44.56	
Prob > Chi	0.000	

[a]Productivity is measured as GDP per hour worked (OECD data).
[*] $p < 0.1$.
[**] $p < 0.05$.
[***] $p < 0.01$.

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