

**HOW SOCIAL LEGITIMACY HELPS OVERCOME LOW HOME COUNTRY
LEGITIMACY: CORPORATE SOCIAL RESPONSIBILITY AND EMERGING
MARKET MULTINATIONALS**

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Abstract: This paper extends the multidimensional view of legitimacy by conceptualizing organizational legitimacy at two levels of analysis – country and firm – and demonstrating that one dimension may help overcome the lack of another. Emerging market multinationals (EMMs) face significant challenges in international expansion partly due to suspicions about their origin or lack of home country legitimacy; we argue that they can overcome these challenges by generating social legitimacy with critical actors in host countries from CSR activities in their home countries. The study uses a quantitative analysis of almost 5,000 cross-border M&A deals from 1990 to 2011, where the acquirers come from Brazil, Russia, India, China, and South Africa. The results show that positive CSR helps overcome low home country legitimacy, leading to greater likelihood of and faster deal completion (and vice versa for negative CSR). We contribute to the strategic CSR and neo-institutional literatures.

Keywords: institutional theory / organizational legitimacy / corporate social responsibility (CSR) / emerging market multinationals (EMMs)

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There is growing recognition that organizational legitimacy¹ has multiple dimensions (Ruef & Scott, 1998; Deephouse & Suchman, 2008). Research has examined how several dimensions of organizational legitimacy affect aspects of firm strategy and performance: e.g., corporate environmental legitimacy makes firms more predictable (Bansal & Clelland, 2004), industry legitimacy increases chances of survival for new ventures (Dobrev & Gotsopoulos, 2010), and legitimacy of local firms affects challenges in establishing and maintaining legitimacy of multinationals (Kostova & Zaheer, 1999). However, research is only beginning to consider how different dimensions of organizational legitimacy condition the effects of each other (Kraatz & Block, 2008). This paper considers two types of organizational legitimacy that operate at different levels, country and firm; we argue that the way in which low country-level legitimacy affects organizational outcomes is conditioned by firm-level legitimacy.

The study focuses on the two dimensions of legitimacy in the context of international expansion by emerging market multinationals (EMMs), answering the following question: Does firm-level legitimacy based on actions of EMMs in their home countries help them succeed despite challenges due to low country-level legitimacy? This empirical context is relevant for the conceptual question and is critically important for management research: international expansion by EMMs, including cross-border acquisitions, has grown strikingly in the past two decades; this expansion is part of an ongoing change in global competitive and social dynamics. Moreover, international expansion of EMMs is highly relevant for examining legitimacy issues arising from perceptions of home country as well as firm activities. Many international actors are suspicious of firms from emerging markets, because of perceptions that actions of their home countries do not meet the norms and values of the actors' host countries; such negative perceptions generate low home country legitimacy for EMMs. Nonetheless, individual EMMs vary in terms of their social activities, such as labor, environment, political, and other actions that may generate firm-level legitimacy in the eyes of relevant international actors.

¹ Suchman (1995: 574) defines legitimacy as “a generalized perception or assumption that the actions of a firm are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.”

The focus on these two levels of organizational legitimacy – firm and country – helps extend a multidimensional view of legitimacy (Ruef & Scott, 1998). At the firm level, we examine social legitimacy, which is a perception that the actions of the firm align with the norms and values of the general society (Suchman, 1995). In particular, we consider social legitimacy that stems from engagement in corporate social responsibility (CSR), firm activities that align social, environmental, and corporate governance activities with societal expectations (Carroll, 1979; Dowling & Pfeffer, 1975). Several studies have shown that engagement and reporting on various aspects of CSR, such as environmental (Cho & Patten, 2007; O'Donovan, 2002) and social disclosures (Patten, 1992) provide legitimacy. Moreover, the strategic CSR literature has established a small positive, yet significant effect of CSR on performance (Margolis, Elfenbein, & Walsh, 2007) even though it mainly examined this effect in developed markets, and in terms of financial success rather than international expansion. In parallel, at the country level, we examine home country legitimacy, which refers to a home country-specific property of an organization as perceived by actors in the host country. It is a host-country sentiment toward a firm's home country: when it is sufficiently negative, the firm may be constrained or even precluded from entering the host country (Holburn & Zelner, 2010).

Empirically, this study examines completion likelihood and time to completion of cross-border mergers and acquisitions (M&As) by firms from Brazil, Russia, India, China, and South Africa (BRICS). Comparative analysis shows that cross-border deals from the BRICS countries have substantially lower completion rates and longer completion times than those of firms based in developed markets. The discrepancy illustrates an illegitimacy discount (Zimmerman & Zeitz, 2002) that EMMs pay when expanding abroad due to their low home country legitimacy.

The dataset covers almost 5,000 cross-border M&A announcements from 1990 to 2011, where the buyer comes from the five BRICS countries. The data draw from Capital IQ and Compustat, supplemented by information on social legitimacy from Lexis-Nexis and other sources. The analysis includes a robust complementary set of regressions, instrumental variables, and matching. The findings suggest that social legitimacy is important in international expansion, even more so when EMMs from the BRICS enter developed markets.

This study contributes to the neo-institutional and strategic CSR literatures. The paper extends the neo-institutional literature by highlighting the multidimensional nature of organizational legitimacy and demonstrating how one dimension may condition the effect of another. The strategic CSR literature has argued that CSR provides an intangible asset that aids companies in overcoming nationalistic barriers and facilitating globalization (Gardberg & Fombrun, 2006) but research to date has not examined this effect empirically, particularly in emerging markets (Visser, 2008).

MULTIDIMENSIONAL MODEL OF LEGITIMACY

Ruef and Scott (1998: 898) argued that we need a multidimensional model of organizational legitimacy, which seeks to understand the “varying sources of legitimacy, the levels at which they operate, the institutional elements that they target, and the environments that contextualize their effects”. This paper answers this call by evaluating the role of two sources of legitimacy, based on perceptions by relevant actors in a potential host country, stemming first from perceptions of a firm’s home country and second from perceptions of the firm’s social activities in the home country. As we noted above, we refer to home country legitimacy as the perception that actions of the firm’s country of origin fit with norms and values of the host country, while social legitimacy is the perception that actions of the focal firm in the home country are appropriate in the social context of the host country.² These two sources of legitimacy operate at different levels: the perception of the home country in the host country is formed at a broader population level (e.g., all Chinese firms), while judgments about social legitimacy are made at the firm level (e.g., Huawei or Lenovo). Moreover, while home country legitimacy involves broad institutional elements of host countries, social legitimacy involves more specific institutional audiences, such as the state, public, and media. Finally, it is the host country environment that contextualizes the effects of the two dimensions of legitimacy in this study.

Hybels (1995) argues that a theory of the legitimation of organizations needs to identify the critical actors, both internal and external, whose approval is necessary to the

² From the literature on dimensions of legitimacy, social legitimacy parallels sociopolitical legitimation – the process by which key stakeholders, the general public, key opinion leaders, and/or government officials accept a venture as appropriate and right, given existing norms and laws (Aldrich and Fiol, 1994).

fulfillment of an organization's functions. Each actor influences the flow of resources crucial to the organizations' establishment, growth, and survival, either through direct control or by the communication of good will. Hybels (1995) recognized four groups of organizational constituents: the state, public, media, and financial community. While these four constituents provide different sources of legitimacy, three – state, public, and media – have overlapping norms and values by which they judge organizations, whereas the financial community uses at least partially distinct evaluation criteria (Hawn, Chatterji, & Mitchell, 2013). This distinction is consistent with the literature that categorizes the state, public, and media as nonmarket actors, while defining the financial community as market actors (Baron, 1995). Because the norms and values by which market and nonmarket actors value the firm are dynamic and do not necessarily co-evolve, legitimacy stemming from these major organizational constituencies can take on different values. This paper will focus on legitimacy relevant to nonmarket actors. In turn, how nonmarket actors evaluate legitimacy is often relevant for market actors.

Businesses respond to nonmarket forces by meeting societal expectations and needs; the adequacy of their response is viewed in terms of legitimacy, where traditional economic and legal criteria relevant for market actors are necessary but not sufficient conditions (Sethi, 1979). Corporate social responsibility as a movement and organizational practice emerged in response to demands by nonmarket actors to place more emphasis on corporate responsibility, accountability, transparency, and sustainability (Waddock, 2008). Firm-level CSR activities provide social legitimacy by symbolizing a firm's commitment to the norms, values, and beliefs of nonmarket actors. CSR, sustainability, corporate citizenship, and other terms describe a portfolio of socioeconomic activities that include environmental, social, and corporate governance actions of the firm (Gardberg & Fombrun, 2006). By meeting the norms and values of general society (e.g., environmentally clean and efficient manufacturing facilities, high labor standards and fair remuneration, diversity on boards, philanthropy, and corporate volunteering), engagement in CSR results in greater social legitimacy for the firm; we will refer to social legitimacy and CSR interchangeably. In turn, in order to discuss home country legitimacy, it is helpful to describe the empirical context of this study.

International expansion of EMMs

We selected the setting of international expansion of firms from emerging markets to extend the multidimensional theory of organizational legitimacy, because in this context all organizations lack legitimacy of one type while having varying degrees of legitimacy of another. There is substantial variation among EMMs on the social dimension of legitimacy (i.e., CSR), yet EMMs from the same country face the same challenge of low home country legitimacy in potential host countries. The international business literature refers to this challenge as liability of origin (Bartlett & Ghoshal, 2000; Ramachandran & Pant, 2010) or liability of home (Stevens & Shenkar, 2012): EMMs that attempt to operate in host countries assume certain disadvantages as a consequence of where they are from (i.e., their country of origin) as opposed to where they are not from (which the international business literature refers to as liability of foreignness). Low home country legitimacy emerges as a result of the friction caused by perceptions of the attributes of home country institutions (Holburn & Zelner, 2010). Even though the level of home country legitimacy may differ among EMMs from different countries, to a greater or lesser extent all EMMs face low home country legitimacy when they expand abroad.

For example, as a result of the Go Out Policy, an initiative the Chinese government launched in 1999 to promote Chinese investment abroad, Chinese firms started their international expansion at the turn of the 21st century. Nonetheless, even today (in 2013) Chinese firms are still commonly perceived as illegitimate due to their origin; host country governments frequently scrutinize or even preclude M&A deals with Chinese firms because, citing a recent statement by a Canadian Member of Parliament, China is not viewed as a “benevolent country”.³ As a result, when Chinese firms expand abroad, they raise suspicion and often face resistance by politicians, trade groups, environmentalists, and other stakeholders involved in cross-border M&A deals. For example, U.S. regulators blocked the Chinese oil company CNOOC from buying Unocal in 2005; CNOOC later succeeded in buying a Canadian firm Nexen but only after a substantial delay needed to overcome political resistance.⁴

³ <http://www.theglobeandmail.com/news/politics/non-benevolent-china-a-concern-in-nexen-deal-tory-mp/article4549293/>

⁴ http://dealbook.nytimes.com/2012/07/23/cnooc-to-buy-nexen-for-15-billion/?nl=afternoonupdate&emc=edit_au_20120723

The lack of home country legitimacy is further reinforced by the recent nature of international expansion by EMMs: according to the data in this study and UNCTAD, while the expansion started in 1990 and has been growing steadily since then – both in dollar terms and in the number of M&A deals – the majority of international expansion of EMMs has taken place since 2000 (see Figures A1-3 in Appendix A). Furthermore, the failure rate and time to completion for EMMs' cross-border M&A deals has been about twice that of the developed country MNEs (see Table B1 in Appendix B). While EMMs may also face firm-specific competitive disadvantages (Guillén & García-Canal, 2009) the focus of this study is the interplay between home country and social dimensions of legitimacy.

We study cross-border M&A, which is a key mode of international expansion for EMMs (according to UNCTAD, roughly half of all outward FDI from emerging markets in 2007 was through M&A). Because the importance of legitimacy is more directly observed at the initial stage of the M&A process, we focus on the public takeover process stage (see Figure A4 in Appendix A). This period starts with signing a preliminary acquisition contract and making the initial public announcement of the deal and continues until resolution (either completing or canceling the deal). The public takeover period has extensive complexity and uncertainty while the initial judgment is made about the firm, and the outcome is highly vulnerable to judgments about organizational legitimacy by nonmarket actors.

Moreover, examining the outcome of this period as a measure of M&A success is important to management research. Common indicators of M&A success include post-merger stock returns (short term indicators) and financial performance, and market growth of the new firm (longer term factors). However, it is increasingly important to examine immediate outcomes: in particular, whether and in what duration a deal is completed. Deal completion and duration are important measures of success for two reasons: first, because over the past few decades approximately one in five takeover bids have ultimately been abandoned (Wong & O'Sullivan, 2001); second, deal abandonment and prolonged deal-making generate substantial costs⁵ such as upfront financial and termination fees, time, diversion of managerial

⁵ For instance, when Rio Tinto broke a deal for Chinalco to purchase a larger stake in the company, it had to pay a US\$195 million breaking fee. Even higher, after Getty Oil breached a merger agreement with Pennzoil, the court ordered a payment to Pennzoil of more than \$10 billion for damages (Luo, 2005). Public companies can incur losses in the share price; e.g., Infosys's share price fell more than 4% after Axon dropped its backing for the takeover bid in favor of a higher offer from HCL.

attention (Dikova, Sahib, & van Witteloostuijn, 2010), and damage to the reputation and credibility of the firm (Luo, 2005). Therefore, as the main outcomes of the public takeover process and measures of M&A success, we will examine the likelihood of completion of the deal, and conditional on completion, time from announcement to completion.

Situating this study in the context of the public takeover process allows us to examine the role of nonmarket actors because market actors usually have agreed on primary details of the deal by the time it is announced (typically by signing a preliminary acquisition contract). The dealmakers may still decide to disengage as they discover more about each other and the deal. Nonetheless, a major influence on the success of this process emerges in the form of nonmarket gatekeepers in the host country, particularly government, employees, and community. We argue that nonmarket gatekeepers will be more welcoming towards socially legitimate firms because such firms are more likely to continue CSR policies in the host country. Thus, CSR can help overcome the lack of legitimacy of EMM's origin.

We suggest that CSR as a source of social legitimacy can help gain access to nonmarket gatekeepers and thus to international markets for three reasons. First, theoretically, CSR can help ensure organizational legitimacy (Carroll, 1979; Dowling & Pfeffer, 1975) by meeting the norms and values of social actors in host countries. Second, CSR can help develop a particular type of intangible asset that aids companies in overcoming nationalistic barriers and facilitating globalization (Gardberg & Fombrun, 2006); research shows that proprietary intangible assets help EMMs compete in even the most advanced countries in the world (Guillén & García-Canal, 2009). Third, CSR has been institutionalized and diffused globally as a global norm of doing business (Waddock, 2008) so by engaging in this organizational practice, EMMs are conforming to a unique set of expectations that local stakeholders have in host countries. Moreover, by engaging in CSR, EMMs are exceeding the expectations derived from their origin in host countries.

Let us illustrate the evaluation process of nonmarket gatekeepers with two examples: regulators and labor unions. First, publicly announced deals typically are examined by public agencies such as anti-trust and international investment regulators, so the role of regulators will be crucial for the completion and duration of the deal. Government regulation serves two general purposes – ensuring utility (the economic benefit of enterprise) and responsibility (the

social obligations of industry) (Hurst, 1970). Regulators, faced with hard choices when the EMM's home country has low legitimacy, have the option of assessing the CSR of the acquiring firm to ensure that it will act responsibly in the host country. For example, when Lenovo (China) offered to buy a laptop computer unit from IBM (U.S.) in 2005, the deal initially faced strong political opposition that led to an official review by the federal Committee on Foreign Investment of the United States (CFIUS). Nonetheless, the review was concluded in advance of the deadline and the deal went ahead, partly due to "Lenovo's commitment to being a great corporate citizen. Working cooperatively with CFIUS is an example of what you should expect of Lenovo, a company that is committed to customers, employees, and communities" (*BusinessWire, March 9, 2005*).

Second, the outcome of completion versus cancellation of the M&A deal and the length of time that the process takes are also determined by other nonmarket actors such as labor and trade unions, employees, and the local community. If they decide that the organization or its origin is not appropriate for the local social context, their interference may lead to abandoning the deal or delaying its resolution while the involved parties negotiate potential social investments in the host country. For example, when the Brazilian steel company Companhia Siderúrgica Nacional (CSN) tried to merge with Wheeling-Pittsburgh Corporation in 2006, steelworkers feared the deal would decimate their ranks. To fend off CSN, the United Steel Workers (USW) union promoted a hostile takeover bid by the Chicago-based steel distributor Esmark. The USW lobbied for the Esmark deal; even though the shareholders favored the deal with CSN, Wheeling-Pittsburgh Corporation was eventually sold to Esmark in 2007.⁶ Had CSN engaged with the union after announcing the deal, such as the Indian firm Tata did in a 2006 deal with Corus, an Anglo-Dutch steel firm, the CSN deal might have gone through rather than failing in the face of the competing bid.

HYPOTHESES DEVELOPMENT

The logic that the examples illustrate leads us to suggest that despite low home country legitimacy, deals by EMMs with positive CSR will more likely result in a positive outcome. In particular, positive CSR of EMMs in their home country will generate favorable

⁶ <http://frontpagemag.com/2011/12/08/union-gangsters-ron-bloom/>

perceptions about them in the host country. The positive perceptions arise from publicly available sources of information as well as documents distributed by the target and acquiring firms (i.e., offer letter, public announcement of the M&A deal, acquiring company prospectus/reports). Positive information on CSR by EMMs will help them overcome the two main hurdles in the public takeover process – opposition from target employees and regulators (Meyer & Altenborg, 2008). Receptivity from these nonmarket actors will result in a positive outcome of the process (i.e., completion of the deal), and a shorter amount of time for the public review of the deal (i.e., duration until completion).

In parallel, we expect an opposite effect for deals by EMMs with indications of socially irresponsible activities such as reports of negative labor practices, environmental problems, and bribery. We will refer to such activities as “negative CSR”. Prior literature suggests that perceptions of social irresponsibility are likely to generate strong observer reactions, often looming larger for the firm than perceptions of social responsibility (Lange & Washburn, 2012; Muller & Kräussl, 2011; Pfarrer, Pollock, & Rindova, 2010). In our context, negative CSR in the home country can cause nonmarket actors in the host country to form negative perceptions of the firm; these negative perceptions will have a negative impact on completion and duration until completion. In our hypotheses we refer to CSR activities in the home country as the origin of social legitimacy in the host country, that is, perceptions that CSR at home generates in the minds of nonmarket actors abroad. This logic suggests:

Hypothesis 1: Positive (negative) CSR will be associated with greater (lower) likelihood of completion of a cross-border deal by EMM.

Hypothesis 2: Positive (negative) CSR will be associated with lower (greater) duration to completion of the cross-border deal by EMM.

In addition, we argue that the effect of home country CSR for EMMs will be higher in developed markets. This is due to the origin and continuing greater institutionalization of CSR in developed countries, and perceptions that competitive advantages of EMMs stem from socially irresponsible practices in their home countries.

CSR became a norm of doing business in developed markets long before it began to diffuse globally and continues to be more institutionalized in developed countries. CSR primarily emerged from growing pressures for responsible environmental practices, labor

standards, and other social causes, especially after the Second World War. Demands for CSR grew after a series of high profile scandals of developed market multinationals' operations (e.g., Nike, Shell, BP, Wal-Mart). While demands for CSR are growing within emerging markets (Visser, 2008), the institutions remain less developed in these institutional environments while the countries face pressure to catch up economically to developed markets (TheEconomist, 2011a).

In turn, stakeholders in developed countries have become increasingly concerned about activities of firms in emerging markets. On the one hand, this reflects scandals by developed market firms that have spilled over to their partners in emerging markets. On the other, the growing prominence of emerging markets in the past several decades has raised the profile of potentially socially irresponsible activities by firms based in these countries (e.g., labor, environment, corruption practices). Whether or not these concerns are based on facts, they form negative perceptions by many nonmarket actors in developed countries.

Moreover, stakeholders in developed markets commonly view EMMs as having unfair competitive advantages, which Pant and Ramachandran refer to as “liability of advantage” (Pant & Ramachandran, 2012: 224). A substantial part of these concerns stems from the perceptions of socially irresponsible practices by EMMs. For example, low cost production in their home countries is often interpreted and publicized by influential developed country actors as residing in exploitative practices (Khan, Munir, & Willmott, 2007), raising concerns about health and safety of such products (e.g., Chinese drywall, toys, contaminated baby formula, food, and poisonous teas).⁷ In addition, fast follower capabilities and resilience in challenging institutional environments raise suspicion in developed markets due to the concerns about intellectual property rights (e.g., debates about Indian pharmaceuticals) and transparency norms (e.g., corruption in the institutional environment and lack of corporate governance in Russian firms). Thus, key constituents who are important for the success of international expansion of EMMs in developed markets may threaten a deal by withholding legitimacy from such firms.

⁷ See, for example, New York Times Navigator ‘Consumer Safety and China’:
http://topics.nytimes.com/top/reference/timestopics/subjects/c/consumer_product_safety/china/index.html

The effect of social legitimacy based on positive or negative CSR by individual EMMs will either counter or exacerbate negative perceptions of their competitive advantages in developed countries. Positive CSR in the home country in the minds of developed country actors can signal higher product quality, fair labor practices, environmentally sound manufacturing processes, transparent relations with the government and contractors, reliable corporate governance structures, and general understanding of corporate responsibility. Negative CSR, on the other hand, may provoke further suspicion towards EMMs by developed country actors because it supports their initial judgments of the firm's lower legitimacy due to their origin. Therefore, low home country legitimacy will be at least partially overcome by an EMM's home-country positive CSR engagement and, by contrast, will be augmented by perceptions of negative CSR. This leads us to the third hypothesis:

Hypothesis 3: The effect of CSR will be greater for targets in developed markets.

To summarize, we argue that strengths or weaknesses in one type of legitimacy help firms overcome or exacerbate weaknesses in another. In our context, firms from emerging markets gain legitimacy abroad by engaging in CSR in their home countries and exceeding the expectations arising from their origins. The main proposition is that legitimacy derived from positive (negative) CSR helps (hurts) EMMs' success in international expansion, particularly in developed host countries. We leave it to the empirical investigation to examine whether the effect remains for emerging markets when we analyze it in different institutional environments. The salience of social legitimacy may remain in both or only one context.

RESEARCH METHOD

Sample selection

In total, we examine 4,711 international M&A announcements that either reached completion or cancellation from 1990 to 2011, where the acquirer comes from the largest emerging markets – the five BRICS countries. Initially the sample also included 58 open transactions (i.e., announced transactions that remain open in our time period); we excluded them to avoid right censoring. We choose this time period due to the availability of data and most importantly, the growth (in fact, emergence virtually from zero) of the number of the emerging markets' cross-border M&A transactions and outward FDI at this time (see

Figures A1-3 in Appendix A). The BRICS represent different regions of the world, provide variation in home country legitimacy, and comprise a large proportion of all M&A transactions by EMMs; according to UNCTAD, in 2010 outward FDI from BRICS comprised 5% of the world total and 35% of the developing economies total.

The sources of data include S&P Capital IQ, Compustat, Lexis-Nexis, and other databases. S&P Capital IQ is a financial information platform that was originally designed to address the needs of the investment banking community; it is now found in more than 4,200 firms, including JP Morgan, Piper Jaffray, and TIAA CREF, and more than 500 academic institutions (Phillips, 2012). S&P Capital IQ, in comparison to other sources such as SDC Platinum, provides more details on each company (the data is linked to Compustat and stock exchange filings). Lexis-Nexis is an extensive database of media articles from around the world; it contains information in English and other languages, which helps deal with limited information about CSR of emerging market firms.

We recognize that there might be a selection bias in focusing on firms that choose M&A as a mode of international expansion (Shaver, 1998). However, any selection issues will tend to be conservative in the context of this study. If firms in our sample are more capable of dealing with host country environments or have a greater (unobservable) propensity to complete cross-border deals, this will underestimate the effect of CSR. M&A is the quickest and sometimes the only way for EMMs⁸ to gain footholds in developed markets (TheEconomist, 2011b); thus, the effect of CSR will be stronger in other modes of expansion, such as greenfield investment.

Nonetheless, we conducted Heckman tests on the sample of 30,047 domestic and cross-border M&A deals by BRICS' firms to determine if there are any selection factors in the decision to go abroad (Appendix C). Results suggest little or no selection bias: the coefficient for the Inverse Mill's ratio is not significant, and the hypotheses are still supported. This means that any unobserved factors that make participation in cross-border deals more likely tend not to be associated with completion or duration of the deals.

⁸ For instance, JBS FRIBOI from Brazil a big meat company, for instance, did not have any presence in the US until 2007 when it bought SWIFT, a struggling American rival. Tata's purchase in 2000 of Tetley, British tea firm, gained it immediate access not only to the British but also to the North American markets.

Measures

Dependent variables. The dependent variables are a) *Completion* - the likelihood that a cross-border acquisition deal will be completed (0, 1) and b) *Duration* – the logarithm of the time taken for deal completion after the announcement. The sample for duration models is smaller because this variable is only calculated for completed deals; in addition, data on dates were missing in 16% of the cases, while in 10% of the duration sub-sample duration was less than zero days due to backdated public announcements (we dropped these observations). Table B1 in Appendix B shows the sample distribution of deals and key statistics for the main dependent variables by home country. We expect to find a positive (negative) relationship between positive (negative) CSR and *Completion*, and a negative (positive) relationship between positive (negative) CSR and *Duration*.

Independent variables. We measure social legitimacy (CSR) with the Janis-Fadner index of media endorsement – a larger number indicates greater legitimacy (Bansal & Clelland, 2004; Carroll & Hannan, 1989; Deephouse, 1996).⁹ This index has been widely used in prior literature; moreover, it highlights the mechanism by which firms from emerging markets gain legitimacy abroad. In particular, host country actors refer to the media to make an informed judgment. We call this measure the CSR Index:

$$\begin{aligned} \text{CSR Index} &= (e^2 - ec)/t^2 \text{ if } e > c, \\ &= (ec - c^2)/t^2 \text{ if } c > e, \\ &= 0 \text{ if } e = c, \end{aligned}$$

where e is the number of endorsing articles about CSR, c is the number of challenging articles, and t is their sum. We used Lexis-Nexis as the media source because of its international coverage and comprehensiveness. We searched for Major World Publications¹⁰ two and one years before the announcement of each deal. The reason for choosing Major World Publications is that they accumulate major news from other sources and present them in the primary international business language - English. The rationale for not looking into

⁹ Other measures of CSR on EMMs were not available. The KLD index started covering emerging market firms in 2011, while ASSET4 (Thomson Reuters/Datastream) has been covering only a small number of emerging market firms since 2008 (other than Gazprom, PetroChina, and Petrobras, which they have covered since 2002). Neither source covered the full period or the full sample of firms in this study.

¹⁰ Major World Publications group file contains full-text news sources from around the world, which are respected for high content reliability. Sources include the world's major newspapers, magazines, and trade publications, which typically offer integrity of reporting. The list of sources is comprehensive (12 pages).

news in other languages is that international stakeholders will not have the same access to them; moreover, if the news did not get published in Major World Publications, they will tend to receive less attention from international stakeholders. A potential concern would arise if Major World Publications focused on public firms due to their visibility, but this is not true in our sample. After composing the *CSR Index*, we checked for the status of buyers and found that the split was 40-60 (private-public), which alleviates this concern.

Because we are interested in CSR as the source of social legitimacy, we extracted full length articles using each company's name and one or more of the following modifiers within 50 words of the company name: "responsib" or "sustainab" or "ethic" or "stakeholder" or "environment" or "polluti" or "social" or "governance" or "philanthrop" or "charit" or "law" or "tax" or "wage" or "employee" or "societ" or "compliance" or "code of conduct" or "transparen" or "corrupt" or "strike" or "sue" or "illegal" or "regulat" or "government" or "woman" or "women" or "black" or "labor union" or "labour union" or "politic". Some of these terms came from the interviews with relevant actors and others from the literature.

On average, the search generated fourteen articles per firm (66,530 articles in total). We followed procedures from prior literature (Deephouse, 1996) that suggest eight as the threshold for the number of articles to be evaluated (if the search returns more than eight articles, then, according to the rules, we randomly select a total of eight plus 25 percent of the remaining number of articles, a sampling fraction well above that used in most communication research). In sum, we content-analyze information from 2,850 articles. On average, this procedure results in 0.6 articles per firm. The majority of deals have no relevant information (about 4,000 M&As); we have CSR data for 734 deals by 383 firms. We then conducted a content analysis of the articles, making sure they provide relevant information, coding them as either endorsing or challenging CSR activities of the focal firm. The composition of home countries of the firms with CSR data is the following: Brazil (5%), Russia (30%), India (20%), China (22%), South Africa (23%).

By construction, *CSR index* varies from -1 to 1. Conceptually and based on anecdotal evidence, we have no reason to believe that its impact will be monotonic. Recent literature on CSR suggests that corporate social irresponsibility (CSiR) and the perceptions that it generates have been previously overlooked, and therefore it is useful to at least distinguish

between CSR and CSiR (Campbell, 2007; Lange & Washburn, 2012). CSR is a multi-dimensional phenomenon: when the firm is socially responsible on some dimensions but not others, it may have to pay for consequences. For example, a well-known Brazilian mining group Vale is visible in its attempts to engage in CSR: in 2010, according to its social report, Vale spent \$999 million on CSR projects (\$829 million for environmental conservation and protection plus \$170 million for social projects). However, this did not preclude South Africa's National Union of Mineworkers (NUM) from successfully blocking Vale from acquiring the South African mining company Metorex due to the Brazilian firm's anti-union behavior, most notably against the United Steelworkers in Canada. In fact, NUM's General Secretary described Vale as "one of the world's leading labor exploiters".¹¹

Therefore, when the CSR Index includes both endorsing and challenging articles, this reflects and raises doubts about endorsing articles and whether the focal firm's CSR engagement is substantive or symbolic. Therefore, for our main analysis, similar to piece-wise regressions used in event history analysis, we split the index into four encompassing and mutually exclusive components: *All negative* (CSR Index = -1), *All positive* (CSR Index = 1), *Majority negative* ($-1 < \text{CSR Index} < 0$), and *Minority negative* ($0 < \text{CSR Index} < 1$). Because the null hypothesis is that CSR does not matter, the comparative group of firms (CSR Index = 0) has either zero information on CSR (3,977 observations) or an equal number of endorsing and challenging news (38 observations); including the dummy for the 38 cases did not change our results. In the matching analysis, due to smaller sample size, we combine *Majority negative* and *Minority negative* into a *Mixed negative* category, where the intuition is that in either of these categories there is concern over CSR activities of the firm, where the challenging articles cast doubt on the endorsing ones and thus the total CSR engagement of the firm. Table B3 in Appendix B provides examples.

According to our hypotheses, we expect *All negative*, *Majority negative*, *Minority negative*, and *Mixed negative* categories to have a negative influence on the completion of the deal and positive effect on duration. We expect the opposite from *All positive*.

¹¹ www.icem.org/en/78-ICEM-InBrief/4548-NUM-Succeeds-in-Blocking-Vale-s-Bid-for-Metorex-in-Southern-Africa

Controls. Based on previous research (Dikova et al., 2010; Muehlfeld, Rao Sahib, & Van Witteloostuijn, 2012) we control for cash payment, public status acquirer, public status target, percentage sought, and target subsidiary.

Cash payment indicates whether the deal was predominantly cash-financed (1) or stock-financed (0): Stock-financed transactions tend to be more complex, as there is more uncertainty about the value of the stock, and hence about the price paid for the transaction. If the deal is predominantly stock-financed, changes in the relative levels of stock prices of the partners may create pressure for renegotiation, leading to delays and sometimes derailment of the merger process (Weston & Jawien, 1999). Cash-backed transactions (cases in which more than 50% of the payment was in cash) account for 78% of the deals.

Public status acquirer and *Public status target* indicate whether the two partners in the transaction are publicly owned (coded as 1) or privately-held (0): Publicly owned companies, more so than privately owned ones, must comply with national and international regulations throughout all phases of trading activities. This feature of publicly owned companies may cause delays in the completion of an acquisition deal (Weston, Mitchell, & Mulherin, 2004). In our sample, 47% of buyers and 27% of targets are public.

Percentage sought is the ownership stake in the target that the acquirer seeks: the higher the percentage, the more is at stake for acquirer and target shareholders, which may affect approval procedures. On average, the percentage sought in our sample is 36.

Target subsidiary indicates whether the target, prior to the M&A announcement, was a subsidiary of a larger enterprise (1, 0). Subsidiary transactions may be more complex because the parent's heritage in the governance structure of the subsidiary often persists for a considerable time period (Slovin & Sushka, 1998). Targets are subsidiaries for 58% of deals.

Several controls compare the five BRICS countries and thus their home country legitimacy. First, dummies for *Brazil*, *Russia*, *India*, and *South Africa* compare firms from these countries to Chinese firms (China had the largest number of M&A deals, lowest likelihood of completion, and longest average duration till completion). This approach assumes that home country legitimacy is stable over the period of the study. Second, a dummy *Developed (host)* specifies the location of the target in the developed (1) or emerging

(0) country.¹² Third, we add *Experience*, which is the count of M&As for the focal firm, assuming that with greater experience it will be easier to enter a foreign market. Fourth, a dummy variable shows whether the company is entering the focus host country for the *First time* (0,1), assuming it will be more difficult to enter a foreign country for the first time. Finally, *Year* controls for macroeconomic conditions; using year dummies rather than a continuous measure did not change our results. Table 1 provides descriptive statistics.

*****Insert Table 1 about here*****

The first dependent variable *Completion* has mean 0.9 and standard deviation of 0.3, showing that 10 percent of deals are cancelled. The second dependent variable *Duration* has mean of 2.13 and standard deviation of 2.25 (this is a logged value; Table B2 in Appendix B shows real values). On average, it takes 58 days to complete a deal with standard deviation of 108 days, suggesting significant variation in *Duration* across deals, in addition to the relevance of logging this variable for our analyses. None of the correlations are significant; they are also low for the independent variables. None of the controls have high correlations with variables other than those expected. Where available in the sample, deal value is also logged and the mean is \$260 million with standard deviation of \$1,071 million, demonstrating a wide variety of deals by size. On average, the percent of stake sought in the target is 36.36% with standard deviation of 39.78 (when we cross-tabulate minority/majority stake dummy, 78% of the sample involves deals with a majority stake). On average, firms in our sample engage in 2.09 deals with standard deviation of 2.33, suggesting high variation in experience of firms. The majority of deals are conducted in the host country for the first time: the mean for *First time* is 0.88 with standard deviation of 0.32. Finally, on average, majority of deals take place in later years: the mean for *Year* is 2007 with standard deviation of 2.9.

We did not include control variables pertaining to the transaction such as termination fees, lock-up provisions, and solicitation clauses because, according to the Capital IQ data, fewer than 2% of our transactions specified such conditions. For the remainder of the deals, consistent with other studies (Dikova et al., 2010), either termination conditions were not in

¹² We followed OECD categorization of developed countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom, and United States.

place or the information was not available. We also did not control for deal approach and attitude: the majority (87.3%) of deals were unsolicited, implying that majority of targets did not actively seek potential buyers, although the majority (99.8%) of deals were not hostile.

DATA ANALYSIS AND RESULTS

We conduct logistic analysis on the probability of the deal being completed and linear regression on the duration of time it takes.¹³ The results are similar when we limit the sample to M&A deals conducted abroad for the first time (*Experience*=1) and for the first time in the focus host country (*First time*=1). Therefore, we present *Experience* and *First time* as controls in the full analysis rather than as separate analyses. Given the structure of our data we have to deal with heteroskedasticity¹⁴: some firms in our sample conducted several M&As over the years but the data is not a balanced panel because this does not always happen every year; moreover, some firms had several deals in one year, so that the data cannot be set as a panel and we cannot specify fixed effects. We deal with heteroskedasticity in two established ways¹⁵: first, by logging duration, and second, by using robust standard errors in all of the analyses. In addition, we control for potential endogeneity in four established ways: first, by lagging the independent variable (calculated 1 and 2 years before the year of announcement); second, by clustering means at the firm level; third, by using a matched sample of completed and cancelled deals (for the completion analyses); and fourth, by using instrumental variables (for the duration analyses).

Hypothesis 1: Completion

Table 2 presents the logistic analysis. Model 1 includes controls: the likelihood of completion is higher if the target is a subsidiary, if the buyer is not from China, and the deal took place in earlier years. Model 2 adds our main independent variables: the coefficients from logistic regression are not directly intuitive, so we will interpret them through odds ratios: the odds for completion with *Mixed negative* news are 0.5 (any odds below 1 by construction are negative); if we split the odds for this variable by the outcome, then the

¹³ We do not use survival analysis because a key assumption is violated in our data (see Appendix D).

¹⁴ Breusch-Pagan test of heteroskedasticity after the regression model on duration shows the presence of heteroskedasticity: $\chi^2(1)=7.48$ $\text{Prob}>\chi^2=0.0062$

¹⁵ <http://www.nd.edu/~rwilliam/stats2/l25.pdf>

odds for cancellation are 11.5 versus 8.6 for completion. This supports the first hypothesis; mixed negative news implies negative CSR and, hence, lower likelihood of deal completion.

*****Insert Table 2 about here*****

Matching

To address the issues of potential endogeneity arising from deal characteristics (i.e., some deals may be inherently easier to complete than others), we complement the above analysis with a linear probability model on the matched sample of cancelled and completed deals. In order to do matching, we follow the empirical methodology of Jaffe, Trajtenberg, and Henderson (1993) and Belenzon and Shankerman (2012), comparing the characteristics of deals that are completed and a control group of deals that are not. The control group is constructed as follows: for each completed deal, we randomly select a cancelled deal that is in the same cohort with the same year of the announcement, value of the deal, percent sought, public buyer (0, 1), payment mainly in cash (0, 1), and the same characteristics of the target - public (0, 1), subsidiary (0, 1), and in a strategic industry (0, 1). *Strategic industry* is a dummy that refers to industries that might be sensitive to national security concerns and thus are more likely to undergo through official review by agencies that must approve the transaction. These include industries related to natural resources (gold, steel, aluminum, metals and mining, oil and gas, agricultural products), utilities (gas, water, electricity, energy), infrastructure (railroads, airports, marine), telecommunications (wireless telecommunication services, broadcasting, cable and satellite), and aerospace and defense¹⁶; 19% of deals involve target companies in strategic industries. The methodology involves comparing CSR of the firm involved in the deal, plus other deal characteristics, between completed and cancelled deals.

With 50% missing data on the value of the deal, we are left with 2,186 completed and 259 cancelled deals, of which using Coarsened Exact Matching in Stata¹⁷ we were able to match 282 completed deals with 108 cancelled deals: multivariate L1 distance is 0.43

¹⁶ In their choice we rely on the UNCTAD definitions of “Sectoral measures motivated by essential security or public order” (see Table 3.A1.2 at <http://www.oecd.org/industry/internationalinvestment/investmentpolicy/40476055.pdf>) as well as recent public announcements of strategic sectors for foreign investment by a number of developing countries (For example, China http://news.xinhuanet.com/english/business/2012-07/21/c_131729537.htm).

¹⁷ Stata command CEM, for details see <http://gking.harvard.edu/files/cem-stata.pdf>

which is sufficiently high to indicate a reliable match. We use a linear probability model that relates a dummy variable for whether the deal is completed to a set of control variables. Since the control group of cancelled deals is matched on the year of the announcement and other characteristics, the methodology controls for these factors in the regressions. The empirical specification is

$$C_{ijklt} = \text{All negative} + \text{All positive} + \text{Mixed negative} + X_{ik},$$

where C_{ijklt} is a dummy variable equal to 1 if deal i in host country k by firm j in home country l is completed at time t , and zero otherwise. The CSR Index is disaggregated into its components but due to smaller sample size ($N = 390$) we merge *Majority negative* with *Minority negative* news into *Mixed negative* category, assuming that the negative reports raise similar concerns for stakeholders. A set of controls X_{ik} includes logged deal value, year of announcement, percent sought, dummies for cash payment, public buyer, public target, target subsidiary, and target industry (strategic industry=1); we match on these variables.

Model 3 in Table 2 presents this analysis. For consistency with the main analysis, we estimate logit on deal completion. The results demonstrate support for the first hypothesis, indeed even more strongly than in Model 2, with significant impact of both *All positive* and *Mixed negative*: the odds of completing the deal with *All positive* CSR news are 5.2 while mixed negative news lower the odds to 0.11 (by construction, any odds below 1 have negative impact). If we split the odds by the outcome, then the odds for cancellation with positive news is 2.39 compared to 3 for mixed negative news, for completion – 13 versus 0.28, further providing evidence to the differences in the components of CSR Index as well as providing support for hypothesis 1.

Hypothesis 2: Duration

Table 3 presents the regression analysis for duration. Model 4 shows the effect of controls on duration: it takes longer to complete a deal if the buyer and target companies are public, the target is a subsidiary, the buyer is from China, the deal takes place in the emerging market, or for the first time in the host country. Perhaps the most intriguing result among the controls is the effect of the developed host country on duration: the business press highlights problems for EMMs in developed host countries but, given more sophisticated development of national business systems and institutions, in retrospect it is

reasonable that developed markets review deals more quickly than emerging markets. Model 5 shows the results for our main independent variables; coefficients on *All negative* (0.394, $p < 0.01$), *Majority negative* (0.939, $p < 0.01$) and *Minority negative* (0.549, $p < 0.05$) are significant and positive, suggesting longer duration for firms with negative CSR. This supports hypothesis 2: all negative components of the *CSR Index* prolong duration.

*****Insert Table 3 about here*****

Instrumental variables

To address concerns of potential endogeneity arising from unobserved firm characteristics, we conduct instrumental variable analysis. We investigated three possible instruments. First, firm visibility at home: the literature has argued that the higher the visibility of a given firm, the higher the pressure to engage in CSR (Chiu & Sharfman, 2011; Ioannou & Serafeim, 2010). To construct this measure, in Lexis-Nexis we searched for home country news articles that mention the company in the headlines; the logarithm of the total count of these articles is the measure of visibility (*Headlines*). Second, we examined a country-level variable (the *Reporting* mandate) which suggests that the adoption of mandatory sustainability reporting laws and regulations increases the social responsibility of business (Ioannou & Serafeim, 2011). This measure takes the value of 1 for country-year observations in the year following the enactment of a mandatory sustainability reporting law or regulation, 0 otherwise. Third, we investigated another country-level variable in the form of the existence (or absence) of a socially responsible stock market index (*SRI Index*) in the focus home country (coded as 1 from the year it was introduced, 0 otherwise) suggesting that its existence encourages firms in emerging markets to engage in CSR (Ioannou & Serafeim, 2012).

We first ran instrumental variable tests for both dependent variables (completion and duration) with the same specification as in the main models, using the same control variables. Instead of the disaggregated elements of the index, we used the continuous measure of the *CSR Index*. This is due to the fact that instrumenting requires a continuous variable, or at least as many instruments as there are instrumented variables: we did not use the set of dummies for the components of the CSR index because we did not have four reliable instruments.

Furthermore, the discrete nature of dummy variables complicates interpretation in instrumental variable analysis, because one of our dependent variables is a dummy.

We ran two analyses for completion and duration. For completion, we used Stata command ‘ivprobit’ with robust standard errors: we found that the Wald test of exogeneity did not reject the null that *CSR Index* can be treated as exogenous¹⁸, suggesting that our key independent variable in this case did not need to be instrumented. Thus, we did not conduct further instrumental variable analysis for the dependent variable of deal completion.

For duration, on the other hand, using Stata command *ivreg2* with robust standard errors, the post-estimation endogeneity test of endogenous regressors was significant: 13.245 *Chisq(1)* P-val = 0.0003 (using ‘*endogtest*’ command). That is, the test rejected the null that the *CSR Index* can be treated as exogenous. Thus, it was appropriate to instrument the *CSR Index* for the dependent variable of duration.

To build a reliable model for instrumental variables, we undertook two procedures. First, using ‘*redundant*’ option in Stata, we examined the strength of the instruments – whether any of them did not provide useful information. The IV redundancy test (LM test of redundancy of specified instruments) was significant for *SRI Index* (8.954 *Chi-sq(1)* P-val = 0.0028) and *Headlines* (4.782 *Chi-sq(1)* P-val = 0.0288) but not for *Reporting*: 0.007 *Chi-sq(1)* P-val = 0.9340; we dropped the *Reporting* instrument. Second, we compared the Sargan statistic to see what instruments are appropriate: the Sargan test rejected the null that the *SRI Index* and *Headlines* instruments are appropriate together but it failed to reject its null (i.e., the statistic was equal to zero and the ‘equation was exactly identified’) when we took out *SRI Index*, leaving only *Headlines* as the instrument. Hence, based on these two procedures, after omitting the two potential country-level instruments, we concluded that the most appropriate and informative instrument is the measure of firm-level visibility. The results of the analysis using *Headlines* as the instrument for CSR are presented in Models 6-8 in Table 3.

Models 6 and 7 present the results from the first and second stages of the instrumental variables regression; Model 8 shows results with GMM option. In the presence of

¹⁸ Wald test of exogeneity for the three instruments together showed $\chi^2(1) = 2.27$ with $\text{Prob} > \chi^2 = 0.1317$. Wald test of exogeneity for firm visibility and SRI Index resulted in $\chi^2(1) = 2.35$ and $\text{Prob} > \chi^2 = 0.1256$. Finally, Wald test of exogeneity for firm visibility only calculated $\chi^2(1) = 0.07$ with $\text{Prob} > \chi^2 = 0.7938$.

heteroskedasticity or clustered errors, although the standard IV coefficient estimates remain consistent, their standard errors and the usual forms of the diagnostic tests are not (Baum, Schaffer, & Stillman, 2003). To address this issue, in our implementation we specify a GMM option to provide more efficient estimation, valid inference, and diagnostic testing, allowing for clustering the errors at the firm level.

We report results for three post-estimation tests. First, the under-identification test, which is comparable to an LM test of whether the equation is identified. In the presence of heteroskedasticity, the traditional Anderson LM and Cragg-Donald Wald statistics are no longer relevant. Instead, we present the LM and Wald versions of the Kleibergen-Paap (2006) rk statistic, which generalizes the traditional tests. For our data, the model is identified.

Second, the weak identification test estimates whether the instrument is relevant. In the presence of heteroskedasticity, the traditional Cragg-Donald-based F-statistic is not relevant; instead we report the Kleibergen-Paap Walk rk F-statistic. For our sample, the F-statistic nears the critical value for 25% maximal IV size (4.691/4.593 versus 5.53), suggesting that our instrument is relevant.

Finally, we report the over-identification test. For this test, the null hypothesis is that the instrument is exogenous (uncorrelated with the error term), so if the statistic is significant and the p-value is small enough, this suggests that the instruments are not exogenous. Since the traditional Sagan test is no longer relevant, we report a Hansen's J statistic (1982), which remains consistent when the error is heteroskedastic. For our specification, the test statistic is 0; therefore, the null hypothesis is not rejected. These post-estimation tests as well as pre-estimation examination show that the firm-level *Visibility* instrument satisfies the conditions of exogeneity and relevance and as a result is valid.

The coefficient on the CSR Index is negative and significant in both Models 7 and 8 (-13.82, p-value<0.05 and -13.76, p-value<0.05), suggesting that the exogenous component of the CSR performance reduces duration. The results suggest that the more positive CSR of the firm, the shorter time it takes the firm to complete a deal. This supports hypothesis 2.

Hypothesis 3: Developed country host

To test hypothesis 3, Table 4 splits the sample into deals in developed (Models 9-10, 13-14) and emerging markets (Models 11-12, 15-16). We first run the analysis for

completion and then for duration. The coefficient on majority negative news is still significant for completion in developed host countries but not in emerging (Model 9): the odds for completion with majority negative news in developed markets are 0.43 (odds for cancellation are 12.6 versus for completion – 7.7). The coefficients for duration are also consistent with prior findings but only in the developed country context: firms with *All negative* (0.561, $p < 0.05$) and *Majority negative* news (0.981, $p < 0.05$) take longer to complete the deal. These results provide moderate support for hypothesis 3. Moreover, it is reassuring that the CSR models in emerging markets do not show significant results for either completion or duration. So even though on average, CSR affects success in all institutional environments, as shown in our previous analyses, the effect is greater in developed countries.

*****Insert Table 4 about here*****

To further assess this hypothesis, we examined mean differences for key independent variables between the two sub-samples (deals in emerging and developed host countries). We found that deals in emerging markets have significantly higher means for all four components of the CSR Index (*All negative*, *All positive*, *Majority negative*, *Minority negative*). This suggests that not only are they different between these institutional environments but also that despite the smaller number of observations with CSR (due to greater number of deals in developed countries), even with lower CSR (both positive and negative), in comparison to emerging markets, the effect of CSR is higher in developed countries. This suggests that salience of social legitimacy varies by the institutional environment, further advancing the multidimensional view of organizational legitimacy.

Furthermore, we analyzed the effect of the interaction of the *Developed host* with the four indicators of CSR (*All negative*, *All positive*, *Majority negative*, *Minority negative*). The results were similar when we replaced the four indicators of CSR with their interactions, although with some effects only at 1-tail significance level when we added all terms in the models. Overall, the results in Tables 2, 3, and 4 demonstrate support for the hypotheses.

The results have intriguing implications. First, EMMs with some negative news about their CSR engagement at home are less likely to complete cross-border deals and take longer than firms with no information about CSR (or exclusively positive information). This is

consistent with the CSR literature predicting that because negative events/news have a greater capacity to arouse the firm's observers (Lange & Washburn, 2012) the negative perceptions of social irresponsibility have a greater impact on nonmarket actors, and thus, the outcomes of their review of the deal. In addition, matching of cancelled and completed deals shows that deals by EMMs that have only positive information about their CSR at home are five times more likely to be completed than the same deals by EMMs with no such information. Interestingly, the coefficient on exclusively negative information is not significant for completion but it is significant and positive for duration, suggesting that when EMMs with only negative information on their CSR activities at home complete deals, the fact that their CSR is viewed negatively does prolong deal making. One explanation for this result could be that these firms have other sources of legitimacy or competitive advantages that ensure success of their international expansion.¹⁹

A second intriguing result is that *All positive* news has a significant effect on completion (Model 3) but not on duration. This can be explained by the different reaction of nonmarket actors to uniformly positive CSR news about the EMM: nonmarket actors may not unanimously react to *All positive* news and may take longer to verify this exceeding any expectations signal, or react faster by trusting it. Either way, the firm with *All positive* news about CSR is more likely to complete the deal, as the result from Model 3 demonstrates, but the time to complete it is not significantly different from firms with no news on CSR. This demonstrates the double edge of legitimacy: when organizations actively attempt to increase legitimacy, these attempts may in fact decrease it (Ashforth and Gibbs, 1990). However, with red flags (i.e., negative news about CSR) it takes significantly longer for review of the deal by nonmarket actors to be complete than for firms with no information about CSR. Overall, the evidence supports the main hypotheses.

Robustness checks

We earlier noted robustness when we used the Heckman test (Appendix C), which addressed potential selection bias in the firms' choice to expand abroad. We now discuss

¹⁹ A test of mean differences on financial performance indicators (excluded from regressions due to missing data) in fact shows significant differences by capitalization, profitability, and size

additional sensitivity analyses. First, we considered the effect of state-ownership, although only 5% of our deals are by state-owned firms (involving 109 firms). We found that they follow the same pattern in completion (about 10% of deals were cancelled) with somewhat longer duration. When we used state ownership dummy as a control in the main analysis, we found even stronger results, possibly due to potential legitimacy spillovers stemming from state ownership in some host countries.

Second, because 12% of deals in our sample involve more than one buyer, we explored any effects of potential partner legitimacy spillovers on deal completion and duration. We coded a dummy variable *Several* and included it in the main analysis: it did not affect the success of completion although it was significant and positive in the duration models, suggesting that it takes longer to complete a deal if more than one buyers are involved. The predicted results were consistent in both cases.

Third, companies might strategically engage in CSR to be able to succeed in their international expansion, particularly in developed markets. This would still be consistent with our theory because whether firms invested in CSR strategically to gain access to international markets or not does not affect the mechanism for the theoretical relationship between CSR and success of international expansion: CSR acts as a signal to host countries that the firm from emerging market is ready to play by the rules of the international community. Nonetheless, we searched for information on when firms started CSR²⁰ to compare the year of their initial CSR engagement to the year of cross-border M&A. We found information for 24% of the cases in the sample; just as the cross-border M&As themselves, CSR is a relatively recent phenomenon for emerging market firms: the earliest year was 1991 but, on average, the firms in our sample started their CSR engagement in 2008. The correlation between non-missing years of initial CSR engagement and the year of announcement of the deal is low ($r=0.05$) and is even lower for first M&A deals or first-time M&As in the focus host country ($r=0.04$). This suggests that since both cross-border M&As from emerging markets and CSR in emerging markets are recent phenomena, it is appropriate to assume that

²⁰ To do this, in Lexis-Nexis we searched for home country news that mention the company in the body of the article and within those results for key terms such as "social responsibility or ethics or sustainability or corporate governance or environmental". Then we confirmed that the news and mention are relevant and recorded the year of the first mention as the year in which companies started CSR.

companies did not engage in CSR on purpose – in order to expand abroad. As we noted above though, even if they did, this would not affect our main theoretical mechanism, as both strategic and voluntary CSR are a signal to the host country that the BRICS firm will play by the rules of the international community and the host.

Fourth, we explored the reasons for deal cancellation. Using Google we conducted a search for information on the reasons for cancellations, coding them into three categories: 1) regulator and other non-market stakeholders (including cancellations due to antitrust and national security concerns); 2) buyers (undisclosed reasons); and 3) shareholders (voting against the deal). Of 462 cancellations in our sample we found information for 322, with the following split among the three categories: 1) regulators=125; 2) buyers=94; and 3) shareholders=103. This shows that the direct impact of regulators and other non-market actors is a key factor for cancellations. Indirectly, non-market actors may also affect the buyers and seller categories; due to the unwillingness of the two sides in the transaction to disclose underlying reasons for cancellations, any such indirect effects are difficult to observe.

Fifth, we searched for the total number of advisors for the acquiring and target firms, assuming that the more advisors they have, the more likely they will complete the deal in shorter duration due to the expertise of professionals. We found this information for the acquirers in 30% and for the targets in 14% of deals in our sample. For the sub-sample with information on buyers' advisors, we found that the deals that were cancelled had a significantly higher number of advisors (N=115) than the deals that were completed (N=1293) with mean difference of 0.85 (standard error=0.19, ***p<0.01). For the sub-sample with information for targets' advisors, the deals that were cancelled (N=86) also had a significantly higher number of advisors than the deals that were completed (N=582) with mean difference of 0.39 (standard error=0.14, ***p<0.01). Furthermore, when we included the number of advisors for buyers and targets as controls in the duration models, the coefficient was positive and significant at the 1% to 5% levels, suggesting that it takes longer to complete a deal with more advisors (the main results did not change materially).

Sixth, we examined whether the target company belonged to a strategic industry (the matching analysis above describes this variable). The indicator variable for *Strategic industry* was not significant in either model, while the other results were materially equivalent. We

continued to use the variable for the matching analysis and dropped it from the other models to preserve parsimony.

Seventh, the base comparison group for our CSR measures is the companies with no information on CSR and companies with an equal number of endorsing and challenging articles about CSR. In additional analysis we split these groups into two, where the only base group for comparison is the companies with no information on CSR: the results hold and even gain more significance (e.g., for *Minority negative*).

Finally, though this decreased our sample due to missing data, we checked whether our results are robust to introducing firm-level performance controls (size in terms of revenues, return on assets, and age) and whether firms with information on CSR (*All positive*, *Mixed negative*, *All negative*) have superior performance. The results withstood this test; moreover, firms with *Mixed negative* CSR (not *All positive* CSR which would be a concern if higher quality firms had *All positive* CSR and succeeded abroad) had higher performance (Appendix E reports further details).

DISCUSSION AND CONCLUSION

This study demonstrates the interplay between two dimensions of organizational legitimacy at country- and firm-levels of analysis. It shows that low home country legitimacy may be overcome or exacerbated by firm-level social legitimacy or illegitimacy. We find support for these arguments using a robust set of analyses, including instrumental variables and matching completed and cancelled deals. The main theoretical contribution rests in the idea that different types of legitimacy may condition the effects of each other on organizational outcomes. We examined firm performance in light of success of international expansion; however, results in this study generalize to other outcomes.

Conceptual contributions

The contribution is relevant for the neo-institutional and strategic CSR literatures. First, we expand the neo-institutional literature by understanding the interaction between the different sources of organizational legitimacy, and examining the relevant criteria by which the legitimacy perception is formed by different audiences. Multiple authors have argued that different forms of organizational legitimacy can arise from different actors, with different impact on business activity and performance (Deephouse & Suchman, 2008; Earle, Spicer, &

Peter, 2010). To date, however, few studies have developed either the conceptual or empirical base of this argument. This paper assesses the double edge of legitimacy (Ashforth & Gibbs, 1990) by raising an important conceptual question: How does organizational legitimacy stemming from different sources affect organizational outcomes; in particular, when do the different types of legitimacy substitute for each other? The results of this study support the multidimensional view of legitimacy (Ruef & Scott, 1998), suggesting that despite low home country legitimacy, developing a different dimension of legitimacy (in this case, by engaging in CSR) is beneficial to success.

In addition, we demonstrate that the salience of different dimensions of legitimacy varies across different institutional environments. Thus, social legitimacy has a greater impact in developed economies when compared to emerging markets. This reflects the institutionalization patterns of CSR with stronger pressures and infrastructure for CSR in developed countries (Waddock, 2008) in addition to the sources of illegitimacy discount that EMMs pay when expanding abroad. We take a strategic view on legitimacy when arguing that firms may overcome low home country legitimacy by generating other types of legitimacy – in particular, social legitimacy that stems from their CSR engagement at home. By pursuing nonmarket strategy at home, firms meet the expectations of two main nonmarket actors in the host country that create hurdles leading to deal abandonment – opposition from target employees and regulators (Meyer & Altenborg, 2008). Social legitimacy can help fill the legitimacy vacuum (Dobrev & Gotsopoulos, 2010) by persuading these two groups of nonmarket actors that the socially responsible actions of the acquiring firm will transfer to the host country (e.g., the acquiring firm will not send jobs abroad, build environmentally harmful facilities, avoid paying taxes, or engage in illegal practices in the host country). Regulators and employees may have a larger say in the public takeover process in developed countries as well as value CSR activities more than in emerging markets.

Second, the findings contribute to the strategic CSR/nonmarket strategy literature. We indirectly test the argument that CSR creates intangible assets that help organizations overcome nationalistic barriers and facilitate globalization (Gardberg & Fombrun, 2006). More directly, we add access to international markets to the list of strategic benefits of CSR, augmenting prior work on the U-shaped relationship between CSR and financial performance

(Barnett & Salomon, 2012), access to finance (Ioannou & Serafeim, 2013), and favorable analyst recommendations (Ioannou & Serafeim, 2010). The literature is only starting to examine CSR in the context of emerging markets (Dobers & Halme, 2009; Lim & Tsutsui, 2012; Visser, 2008). The empirical analysis in our study shows that CSR is context-specific in these markets (e.g., to identify socially responsible activities in South Africa, we had to use the search term “black” – for *Black Economic Empowerment*). Moreover, even among the BRICS countries, there is significant variation in how governments treat CSR: while engagement is still mainly voluntary in many settings, some countries start issuing mandatory policies for some sectors of their economy (e.g., the Chinese government issued a mandatory decree in 2008 called “CSR Guideline for State-Owned Enterprises”; meanwhile, Black Economic Empowerment laws apply to many firms in South Africa).

Managerial Implications

The results of this study are important to managers and public policy-makers in emerging markets because of increasing globalization. Due to the institutionalization of patterns of accepted behavior and the ever interconnected multinational clients and regulatory bodies, the electronic and print media, educational institutions, professional accreditation, and international consulting firms, EMMs will find themselves operating in national environments that increasingly resemble each other (Rosenzweig & Singh, 1991). Because the challenges around CSR are progressively universal, the ability to adapt to, and successfully negotiate, the cultural references, standards, and practices of developed markets (such as CSR) is critical to EMMs’ success abroad; in addition, it may ultimately have spillover effects in the home country, leading, in the longer term, to harmonization of standards upwards (Sauvant, Maschek, & McAllister, 2010: 16).

The study suggests that being a good corporate citizen at home may at least partially substitute for low home country legitimacy abroad, particularly when expanding to developed markets. For managers of firms in emerging markets that in the next decade will be constantly evaluating various options for international expansion, such as listing shares on a foreign stock exchange, exporting, investing abroad through M&A or greenfield investment, or partnering with developed country firms (at home or abroad), the recommendation to invest in CSR will remain because cross-border M&A is one but easiest

mode of expansion and because in the realm of international trade, CSR has emerged as a vital *modus operandi* on which failure and success often hinge: operating ethically and transparently is essential to earning a social license to trade, extract, procure, and sell²¹.

Limitations and future research

The study has limitations that suggest directions for future research. Further studies can evaluate other modes of international expansion such as greenfield and alliance activity; could examine other measures of the success of international expansion such as financial performance, stock exchange returns on the M&A announcement, and the likelihood of survival; and could investigate other sources of organizational legitimacy, such as legitimacy spillovers from foreign or state investors, foreign partners, other organizational practices that meet the norms and expectations of some group of relevant actors in the host country. Future research could also examine legitimacy and performance of target companies: if targets lack legitimacy in the host country, the review of cross-border M&A by an illegitimate EMM may be not as diligent or difficult to pass. Though we find that the rate of cancelation of M&A deals was significantly higher after the financial crisis, suggesting that the review has not become easier, even with so many struggling firms.

We believe that this study provides relevant insights concerning legitimacy, CSR, and international expansion. The combination of focused argument and rich data provides intriguing results. In turn, the logic and results provide a base for continuing research.

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²¹ Source: <http://www.theglobeandmail.com/partners/advedc1111/in-international-trade-corporate-responsibility-takes-on-new-dimensions/article4217311>

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Table 1. Descriptive statistics and correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	
(1) Complete	1																								
(2) Duration		1																							
(3) CSR index	-0.01	-0.01	1																						
(4) All neg	0.03	0.03	-0.64	1																					
(5) All pos	0.01	0.01	0.76	-0.05	1																				
(6) Major neg	-0.01	0.05	-0.17	-0.03	-0.04	1																			
(7) Minor neg	-0.01	0.04	0.16	-0.03	-0.04	-0.02	1																		
(8) Mixed neg	-0.02	0.06	-0.02	-0.04	-0.05	0.73	0.67	1																	
(9) Deal value	-0.09	0.26'	-0.03	0.11	0.05	0.13	0.13	0.18	1																
(10) Cash pay	0.01	0.00	0.01	0.01	0.02	-0.02	-0.01	-0.02	-0.01	1															
(11) Buyer p	0.02	0.09	0.00	0.06	0.05	0.07	0.06	0.09	-0.07	0.00	1														
(12) Target p	-0.10	0.07	-0.01	-0.02	-0.03	-0.01	-0.03	-0.02	0.13	-0.03	0.01	1													
(13) % sought	0.01	0.03	0.00	-0.01	-0.02	-0.04	-0.01	-0.03	0.02	0.30	-0.01	0.00	1												
(14) Target s	0.18	0.04	-0.01	0.03	0.01	0.04	0.03	0.05	-0.06	0.00	0.05	-0.59	-0.03	1											
(15) Dev host	0.00	-0.05	0.01	-0.05	-0.03	-0.03	-0.03	-0.04	0.02	0.01	0.12	0.06	0.09	-0.07	1										
(16) Brazil	0.02	0.04	-0.04	0.02	-0.04	-0.03	-0.04	-0.05	0.15	-0.02	-0.01	0.02	-0.01	0.04	-0.08	1									
(17) Russia	0.05	-0.16	-0.06	0.06	-0.01	0.18	0.04	0.16	0.07	-0.05	-0.14	-0.10	-0.06	0.07	-0.17	-0.13	1								
(18) China	-0.13	0.21	-0.03	-0.04	-0.08	-0.05	-0.03	-0.05	-0.03	0.01	-0.02	0.20	0.03	-0.21	0.01	-0.20	-0.36	1							
(19) South A	0.04	0.01	0.15	-0.03	0.16	-0.02	0.11	0.06	-0.03	0.07	-0.01	-0.03	0.08	0.01	-0.03	-0.11	-0.19	-0.28	1						
(20) India	0.06	-0.10	0.00	0.00	0.00	-0.08	-0.07	-0.10	-0.09	-0.01	0.17	-0.12	-0.03	0.13	0.21	-0.16	-0.29	-0.43	-0.23	1					
(21) Experien	0.02	0.01	-0.06	0.12	0.03	0.19	0.13	0.23	0.13	-0.02	0.22	-0.07	-0.07	0.11	-0.05	0.07	0.15	-0.20	0.08	-0.02	1				
(22) First t	0.00	0.03	-0.02	0.00	-0.02	-0.02	-0.05	-0.05	0.00	0.01	-0.16	0.05	0.04	-0.08	-0.03	0.00	-0.04	0.08	-0.02	-0.04	-0.39	1			
(23) Strat ind	-0.02	0.03	0.00	0.06	0.06	0.11	0.08	0.14	0.18	0.01	-0.04	0.08	-0.05	-0.04	-0.12	-0.02	0.09	0.00	0.07	-0.13	0.06	0.01	1		
(24) Year	-0.06	0.00	-0.01	0.01	0.00	-0.01	-0.02	-0.02	0.04	-0.06	-0.06	0.00	-0.17	0.03	-0.06	-0.01	0.02	0.14	-0.22	0.00	0.07	-0.03	-0.05	1	
Mean	0.90	2.13	0.02	0.04	0.06	0.02	0.02	0.04	3.42	0.78	0.47	0.27	36.36	0.58	0.53	0.07	0.19	0.35	0.13	0.26	2.09	0.88	0.19	2007	
Std. Dev.	0.30	2.25	0.33	0.20	0.24	0.15	0.14	0.20	1.99	0.42	0.50	0.44	39.78	0.49	0.50	0.26	0.39	0.48	0.33	0.44	2.33	0.32	0.39	2.85	
Min	0	0	-1	0	0	0	0	0	0	0	0	0	0.20	0	0	0	0	0	0	0	1	0	0	1990	
Max	1	7.18	1	1	1	1	1	1	9.85	1	1	1	100	1	1	1	1	1	1	1	23	1	1	2011	
N	4711	3505	4711	4711	4711	4711	4711	4711	2445	4711	4711	4711	4711	4711	4711	4711	4711	4711	4711	4711	4711	4711	4711	4711	

'N=1846

Table 2. Main results for completion (logistic regression – Hypothesis 1)

	Full sample		Matched sample
	(1) Completion	(2) Completion	(3) Completion
Mixed negative			-2.169*** (0.811)
Majority negative		-0.613** (0.308)	
Minority negative		-0.569' (0.349)	
All negative		0.387 (0.328)	1.281 (1.061)
All positive		0.068 (0.239)	1.649** (0.743)
Cash payment	0.056 (0.122)	0.052 (0.122)	
Buyer public	0.037 (0.112)	0.048 (0.113)	
Target public	0.129 (0.141)	0.133 (0.142)	
Percent sought	0.0005 (0.001)	0.0005 (0.001)	
Target subsidiary	1.205*** (0.145)	1.219*** (0.145)	
Developed host	0.123 (0.113)	0.126 (0.114)	
Experience	-0.006 (0.022)	0.003 (0.024)	
First time	0.189 (0.178)	0.203 (0.175)	
Brazil	0.505** (0.243)	0.473* (0.244)	
Russia	0.701*** (0.167)	0.732*** (0.170)	
South Africa	0.628*** (0.199)	0.641*** (0.203)	
India	0.561*** (0.147)	0.530*** (0.149)	
Year	-0.068*** (0.02)	-0.069*** (0.02)	
Constant	136.7*** (39.79)	140.1*** (40.21)	0.916*** (0.120)
Observations	4,711	4,711	390

***p<0.01, **p<0.05, *p<0.1, 'p<0.1 at one-tail significance. Robust standard errors clustered at firm level for Models 1-2
 Interpretation: in Model 2 the odds for completion with majority/minority negative news are 0.5 (any odds below 1 by construction are negative); if we split the odds by the outcome, then for cancellation the odds are 11.5/11.4 versus 8.6/8 for completion; in Model 3 the odds for completion with mixed negative/all positive news are 0.11/5.2, for cancellation the odds are 3/2.39 versus 0.28/13 for completion. Thus, both models support H1.

Table 3. Main results for duration (GLS and IV – Hypothesis 2)

	GLS		Instrumental variables		
	Full sample		1st stage	2nd stage ivreg2	2nd stage GMM
	(4) Duration	(5) Duration	(6) CSR index	(7) Duration	(8) Duration
Majority negative		0.939*** (0.301)			
Minority negative		0.549** (0.232)			
All negative		0.394** (0.192)			
All positive		0.185 (0.161)			
CSR index				-13.82** (6.853)	-13.76** (6.897)
Visibility: Headlines			-0.00749*** (0.00284)		
Cash payment	-0.059 (0.094)	-0.064 (0.093)	0.00490 (0.0121)	0.00705 (0.215)	0.00665 (0.215)
Buyer public	0.379*** (0.099)	0.335*** (0.093)	0.0129 (0.0107)	0.476** (0.199)	0.465** (0.198)
Target public	0.557*** (0.111)	0.559*** (0.11)	-0.0179 (0.0135)	0.0980 (0.354)	0.100 (0.354)
Percent sought	0.001 (0.001)	0.001 (0.001)	-0.000166 (0.000128)	-0.000640 (0.00249)	-0.000625 (0.00248)
Target subsidiary	0.641*** (0.0956)	0.63*** (0.0960)	-0.0150 (0.0121)	0.243 (0.319)	0.247 (0.318)
Developed host	-0.268*** (0.085)	-0.257*** (0.085)	0.000740 (0.0101)	-0.243 (0.185)	-0.242 (0.184)
Experience	0.042 (0.033)	0.024 (0.031)	-0.0111*** (0.00250)	-0.160 (0.109)	-0.152 (0.107)
First time	0.296** (0.139)	0.259* (0.134)	-0.0533*** (0.0167)	-0.315 (0.428)	-0.313 (0.429)
Brazil	-0.551*** (0.154)	-0.523*** (0.154)	-0.0123 (0.0205)	-0.948*** (0.341)	-0.949*** (0.341)
Russia	-1.431*** (0.129)	-1.492*** (0.123)	-0.00140 (0.0150)	-1.889*** (0.332)	-1.878*** (0.331)
South Africa	-0.666*** (0.142)	-0.685*** (0.144)	0.171*** (0.0166)	1.583 (1.159)	1.576 (1.169)
India	-1.106*** (0.111)	-1.079*** (0.111)	0.0264** (0.0134)	-0.735** (0.292)	-0.736** (0.292)
Year	-0.007 (0.01)	-0.005 (0.01)	0.00306* (0.00178)	0.0560 (0.0456)	0.0554 (0.0455)
Constant	15.43 (29.99)	12.70 (29.29)	-6.057* (3.568)	-109.3 (91.06)	-108.0 (90.92)
Observations	3,505	3,505	4,711	3,505	3,505
R-squared	0.085	0.091			
(Centered) R-squared			0.035	-4.082	-4.049
Kleibergen-Raap (KR) rk LM stat (under-identification test)				4.618 (p=0.032)	4.522 (p=0.034)
KR rk Wald F (weak identification)				4.691	4.593
Hansen J stat (over-identification)				0 (e.e.i.)	0 (e.e.i.)

***p<0.01, **p<0.05, *p<0.1 Robust standard errors (4-8) clustered at the firm level (4-5); e.e.i. - equation exactly identified
Results from both analyses provide support for H2.

Table 4. Main results for the split samples (Hypothesis 3)

	In developed		In emerging markets		In developed		In emerging markets	
	(9) Complete	(10) Complete	(11) Complete	(12) Complete	(13) Duration	(14) Duration	(15) Duration	(16) Duration
Majority negative		-0.824* (0.468)		-0.415 (0.401)		0.981** (0.41)		0.773 (0.473)
Minority negative		-0.632 (0.586)		-0.403 (0.531)		0.352 (0.375)		0.567 (0.353)
All negative		0.248 (0.498)		0.505 (0.429)		0.561** (0.253)		0.192 (0.286)
All positive		0.054 (0.362)		0.095 (0.332)		0.311 (0.224)		0.008 (0.233)
Cash payment	0.194 (0.169)	0.213 (0.169)	-0.117 (0.179)	-0.136 (0.179)	-0.126 (0.127)	-0.141 (0.127)	0.003 (0.131)	0.009 (0.131)
Buyer public	0.276* (0.155)	0.286* (0.156)	-0.257 (0.161)	-0.245 (0.163)	0.419*** (0.122)	0.365*** (0.117)	0.361** (0.140)	0.329** (0.137)
Target public	0.186 (0.188)	0.186 (0.189)	0.049 (0.205)	0.059 (0.208)	0.563*** (0.15)	0.581*** (0.15)	0.6*** (0.165)	0.585*** (0.164)
Percent sought	0.0008 (0.002)	0.0008 (0.002)	-0.0003 (0.002)	-0.0003 (0.002)	0.002* (0.001)	0.002* (0.001)	0.0008 (0.002)	0.0009 (0.002)
Target subsidiary	1.508*** (0.214)	1.523*** (0.216)	0.967*** (0.202)	0.977*** (0.202)	0.62*** (0.136)	0.613*** (0.136)	0.665*** (0.133)	0.654*** (0.134)
Experience	0.0002 (0.044)	0.018 (0.051)	-0.002 (0.028)	0.0002 (0.028)	0.106*** (0.037)	0.082** (0.035)	-0.001 (0.036)	-0.014 (0.036)
First time	0.438* (0.238)	0.459* (0.241)	-0.105 (0.281)	-0.103 (0.276)	0.485*** (0.162)	0.417*** (0.159)	0.178 (0.199)	0.165 (0.195)
Brazil	-0.145 (0.363)	-0.165 (0.367)	1.059*** (0.298)	1.024*** (0.298)	0.117 (0.252)	0.142 (0.25)	-0.977*** (0.198)	-0.941*** (0.2)
Russia	0.270 (0.246)	0.336 (0.256)	1.019*** (0.233)	1.032*** (0.234)	-0.995*** (0.193)	-1.111*** (0.184)	-1.727*** (0.161)	-1.749*** (0.156)
South Africa	0.570* (0.291)	0.576* (0.298)	0.655** (0.273)	0.665** (0.279)	-0.599*** (0.196)	-0.63*** (0.2)	-0.75*** (0.203)	-0.745*** (0.208)
India	0.510** (0.202)	0.479** (0.205)	0.529** (0.216)	0.498** (0.219)	-1.117*** (0.141)	-1.101*** (0.14)	-0.899*** (0.186)	-0.863*** (0.187)
Year	-0.071*** (0.02)	-0.072*** (0.026)	-0.061** (0.03)	-0.063** (0.03)	-0.007 (0.02)	-0.007 (0.02)	-0.01 (0.02)	-0.006 (0.02)
Constant	142.6*** (51.30)	144.7*** (51.73)	123.6** (59.84)	127.9** (61.08)	14.39 (37.63)	15.23 (37.01)	23.15 (45.13)	15.18 (44.14)
Observations	2,504	2,504	2,207	2,207	1,847	1,847	1,658	1,658
R-squared					0.082	0.088	0.108	0.113

***p<0.01, **p<0.05, *p<0.1 Robust standard errors clustered at the firm level

Logistic regression for Completion and GLS for Duration (linear regression with robust and cluster specifications in Stata)

The effect persists in developed host countries, providing moderate support for H3.

APPENDIX A. Figures

Figures A1 and A2. Outward FDI and cross-border M&A from developing countries

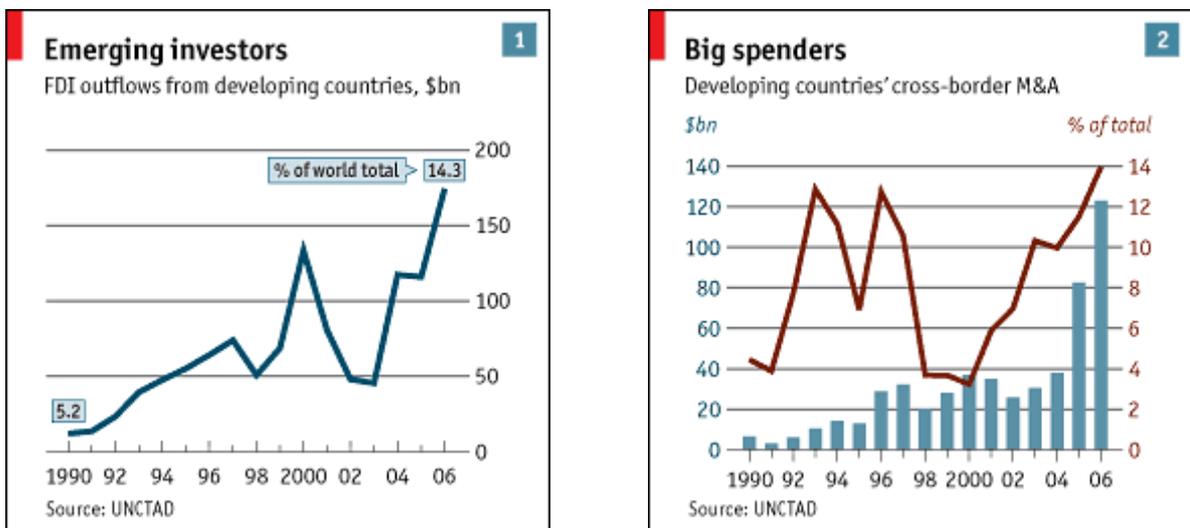


Figure A3. Cumulative number of cross-border M&As by BRICS (1990-2011)

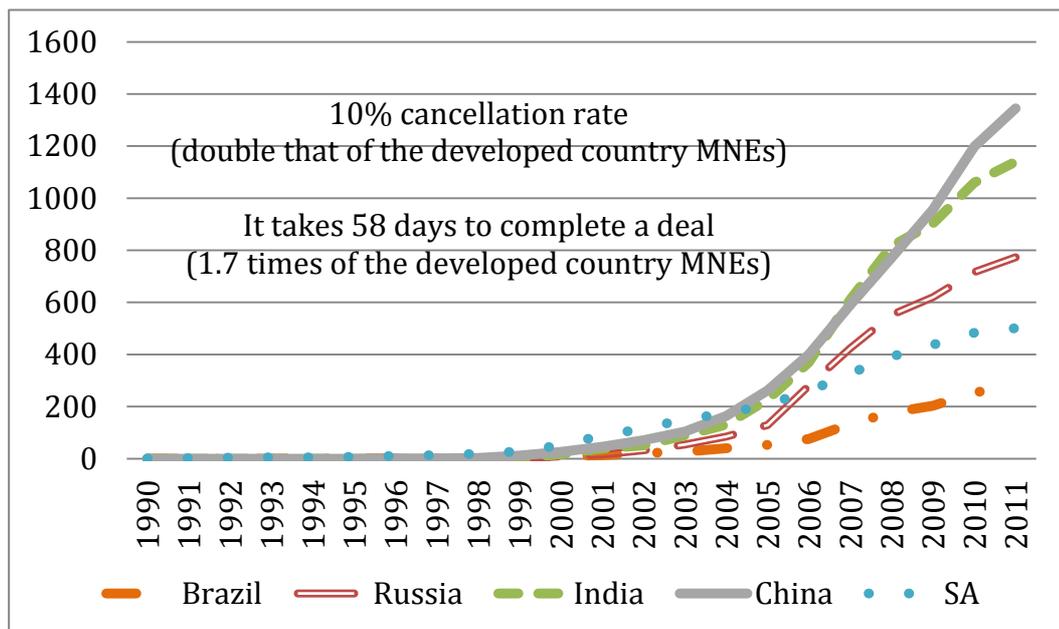
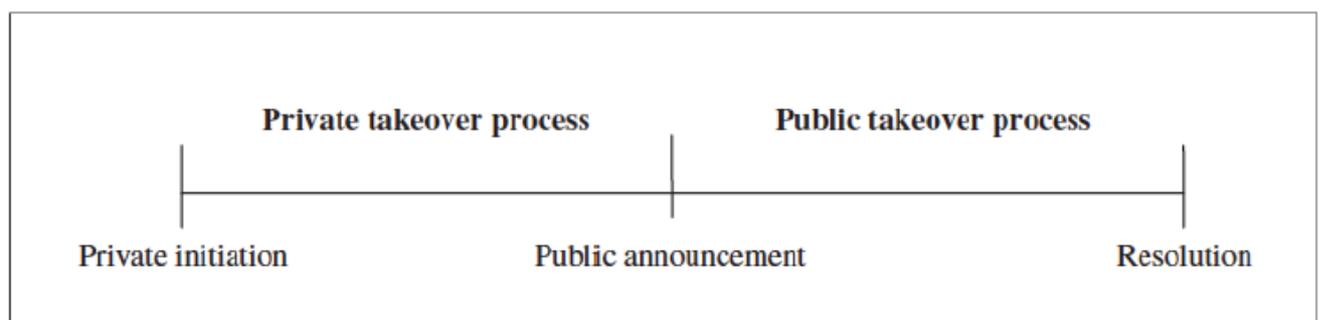


Figure A4. Cross-border M&A Process (Boone & Mulherin, 2007)



APPENDIX B. Additional data description

Table B1. Sample distribution of cross-border M&A by home country

	Deals	Deals in developed markets				Deals in emerging markets			
	#	#	%	Cancel (%)	Duration (days)	#	%	Cancel (%)	Duration (days)
Brazil	333	127	38	11.8	68	206	62	5.3	61
Russia	907	328	36	9.4	42	579	64	5.5	47
India	1,229	874	71	6	32	355	29	9.4	70
China	1,642	881	54	14.4	70	761	46	15.5	86
South Africa	600	294	49	5.8	49	306	51	8.2	67
Full sample	4,711	2,504	53	9.7	92	2,207	47	9.9	68
Developed country MNE	68,444	49,759	73	4	32	18,685	27	6.8	45

Table B2. Summary statistics for key variables by home country*

	Completion, %		Duration, days		CSR Index	
	0	1	Mean	St. dev.	Mean	St. dev.
Brazil	8	92	64	94	-0.034	0.281
Russia	7	93	45	118	-0.023	0.379
India	7	93	43	98	0.018	0.326
China	15	85	78	112	0.006	0.269
South Africa	7	93	58	101	0.152	0.421
Full sample	10	90	58	108	0.019	0.334

*CSR Index is the weighted ratio of endorsing and challenging media articles about CSR activities of the firm at home.

Table B3. Examples of companies by home country*

Home country	All negative	All positive
Brazil	Petrobras	Gerdau
Brazil	Vale	Ambev
Russia	Rosneft	Tatneft
Russia	Rusnano	Polymetal
Russia	Sberbank	Rosbank
India	Satyam	Suzlon
India	Tata Chemicals	Tata Consultancy
China	Petrochina	Suntech
China	ZTE	Chinalco
South Africa	Telkom	Metorex

*All negative refers to the lowest CSR Index (-1); All positive refers to the highest CSR Index (1)

APPENDIX C. Results of Heckman selection bias models

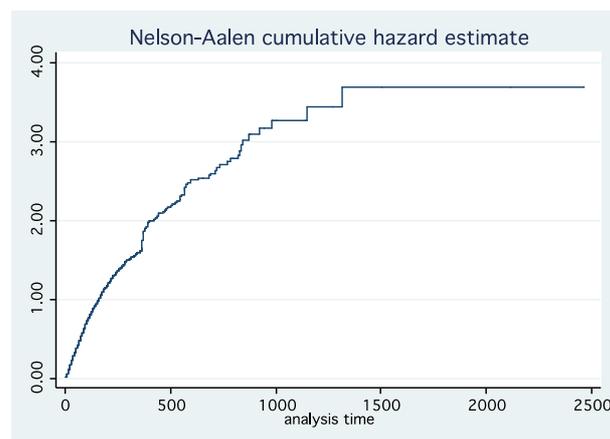
In this analysis, we address a potential selection bias: choosing to expand abroad versus staying at home. We are interested in completion of cross-border and domestic deals: if companies chose to expand abroad because they have a greater (unobservable) propensity to complete deals, then the effect of cross-border deals may be overstated; the propensity to complete deals is in the error term of the completion regression and is correlated with the cross-border nature of the deal.

We expand the sample of M&A deals to include domestic and cross-border deals by BRICS' firms: in total, this includes 30,047 deals, out of which 87% are completed and 16% are cross-border (the variable *Cross-border* equals 1). To determine whether selection is relevant, first we estimate the probability of being treated as a function of original control variables plus an additional identifying variable - (logged) revenue of buyers (it is missing in 43% of cases but its significance shows its appropriateness). Revenue is assumed to affect the probability of choosing to expand abroad (positively) but is assumed to not influence completion (results of the analysis support this assumption – revenue is not significant in full models). A probit estimate of the probability of being treated gives an Inverse Mill's ratio (lambda) that we later use in the original models. Hypotheses 1 and 2 continue to be supported but the coefficient on lambda is negative and not significant, suggesting no correlation between the error terms in the selection and primary equations. This suggests that the (unobserved) factors that make participation in cross-border deals more likely tend to not be associated with cancellation or duration of the deal.

	Probit Cross-border	Interpretation Cross-border	H1 Completion	H2 Duration
Majority negative			-0.740** (0.366)	0.704** (0.300)
Minority negative			-0.620 (0.391)	0.405* (0.233)
All negative			0.276 (0.356)	0.382* (0.214)
All positive			0.167 (0.298)	0.0758 (0.184)
Cash payment	-0.0134 (0.0280)	-0.00342 (0.00715)	-0.0558 (0.161)	-0.0621 (0.124)
Buyer public	0.00831 (0.0243)	0.00210 (0.00615)	-0.0496 (0.146)	0.153 (0.112)
Target public	0.152*** (0.0335)	0.0402*** (0.00917)	0.278 (0.321)	0.228 (0.260)
Percent sought	0.00174*** (0.000314)	0.000441*** (7.97e-05)	-0.00105 (0.00327)	-0.000270 (0.00273)
Target subsidiary	0.0698** (0.0292)	0.0176** (0.00727)	1.352*** (0.211)	0.495*** (0.158)
Developed host			0.217 (0.146)	-0.229** (0.109)
Experience	0.000842 (0.00136)	0.000214 (0.000346)	0.00444 (0.0283)	0.0386 (0.0253)
First time			0.0918 (0.211)	0.236 (0.153)
Brazil			0.134 (0.284)	-0.569*** (0.184)
Russia			0.851*** (0.228)	-1.544*** (0.165)
South Africa			0.746*** (0.278)	-0.729*** (0.180)
India			0.398** (0.185)	-1.150*** (0.139)
Year	-0.0591*** (0.00459)	-0.0150*** (0.00116)	-0.0432 (0.0978)	0.0616 (0.0824)
Inverse Mill's ratio			-1.292 (1.985)	-1.481 (1.734)
Revenue	1.24e-06*** (3.71e-07)	3.14e-07*** (9.40e-08)		
Constant	117.7*** (9.213)		89.63 (193.4)	-119.1 (162.7)
Observations	17,012	17,012	2,959	2,207
R-squared				0.083

APPENDIX D. Survival or event history analysis

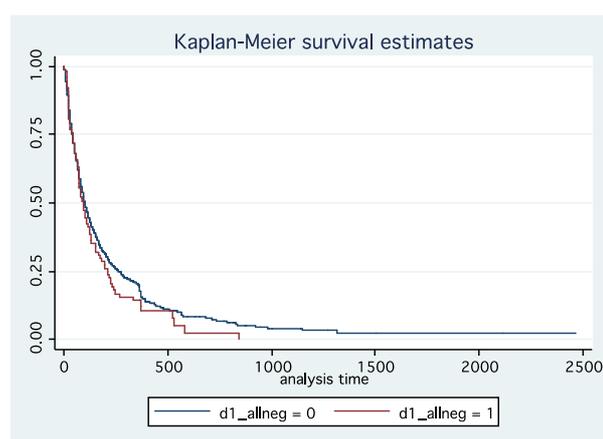
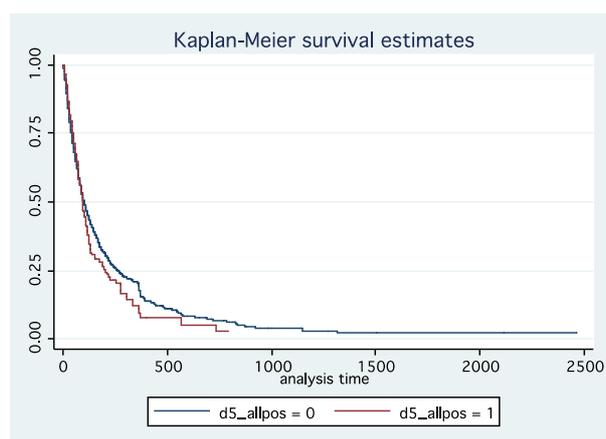
In this analysis, we try an alternative estimation method for the duration and completion of cross-border deals – survival analysis. We conduct it for multiple failure-time data; these data arise when either of two or more events (failures) occur for the same subject, or in our sample, from identical completions (cancellations) of the deal for the same company. Thus, failure times are correlated within cluster (i.e. the firm), violating the independence of failure times assumption, required in traditional survival analysis. In our data we have unordered failure events of the same type, where the same event of deal cancellation can occur to the same firm multiple times. The cumulative hazard curve is shown on the right (duration in days on x-axis and hazard estimates on y-axis).



When we set our data for survival analysis with failure (or event) as the completion of the deal, time of entry as the date of the announcement, and time of exit as the date of the completion or cancellation of the deal, the sample size becomes smaller $N = 2,251$ (1,795 completions by 1,595 firms). This is due to missing dates for some of our observations as well as backdating and announcing deals on the same day as their completion or cancellation (previously dropped from our analysis). Average duration from announcement to completion in this sample is 147 days, with a minimum of 1 day and a maximum of 2,463 days.

To explore whether or not to include the predictor from main models in the final (survival) model we conducted univariate analyses. For the categorical variables we use a non-parametric test: the log-rank test of equality across strata. For the continuous variables we use a semi-parametric model: a univariate Cox proportional hazard regression. We consider including the predictor if the test has a p-value of 0.2 - 0.25 or less. If the predictor has a p-value greater than 0.25 in a univariate analysis it is highly unlikely that it will contribute anything to a model which includes other predictors. The results of the univariate analysis show that *CSR Index* and its two sub-components (*All positive* and *All negative*) lie within the cut-off point of 0.2 and so can be included in the model. Out of all controls, only the following can be included in the model: *Buyer public*, *Target public*, *Percent sought*, *Target subsidiary*, *Developed host*, *Experience*, *Brazil*, *South Africa*, *India*, *China*, and *Year* (as well as *Employees*, *Revenue*, and *ROA* from other robustness tests).

Before testing the full model, in survival analysis it is highly recommended to look at the Kaplan-Meier curves for all categorical predictors. This provides insight into the shape of the survival function for each group and gives an idea of whether or not the groups are proportional (i.e. the survival functions are approximately parallel). Below we show the Kaplan-Meier curves for All positive and All negative variables: it clearly takes longer to complete deals without any information on CSR (y-axis shows the proportion of completed deals, x-axis shows the duration in days).



It is clear from the graphs that the curves are not parallel (curves with *All Positive* and *All negative* = 1 end earlier than those with zeroes). This may be an indicator that one of the main assumptions for survival analysis is violated. Using *stphptest* command in Stata we run a test for violation of proportional hazards assumption. The output from *stphptest* is significant, indicating evidence contradictory to the proportionality assumption: $\chi^2=56.83$, $df=13$, $Prob>\chi^2=0.00$. This is the second key assumption in the Cox model, which in a regression type setting means that the survival curves for two strata (determined by the particular choices of values for the x-variables) must have hazard functions that are proportional over time (i.e. constant relative hazard). We have seen how this can be evaluated graphically (for *All positive* and *All negative* – see above) but Stata test adds more evidence that one of the two assumptions for the Cox model is violated. Therefore, we do not pursue the survival analysis to test our hypotheses in this paper.

APPENDIX E. Robustness checks using firm performance characteristics

In this analysis, we address potential endogeneity biases due to unobserved heterogeneity among BRICS firms stemming from their performance. We are interested in whether the effect of CSR remains in the presence of firm performance characteristics, and whether firms with highly positive CSR are also of higher ‘quality’. To answer these questions, we conduct two tests: one including performance data as controls in the main regressions, and one comparing the mean differences of firms with and without information on CSR.

The neo-institutional literature argues that legitimacy stems from greater age, size, and profitability – so we will use these measures to control for firm characteristics. If companies with better performance are more likely to complete deals, and in shorter time, then the effect of CSR might be overstated. Unfortunately, company data is limited and is only available for the year of the announcement of the M&A, so the sample size is smaller and the results shall not be fully trusted (although such measures of performance as size and profitability usually highly correlate with values from previous years). Age is measured as the logarithm of the difference between current year and the year of founding; size is a logarithm of revenues, and profitability is Return on Assets (ROA). We also included Return on Sales (ROS) as a measure of performance, and the logarithm of the number of employees as a measure of size but they did not bear any significance, and so are not reported here.

Including size, age, and profitability does not materially change our results; moreover, the effect of these controls on the likelihood of completion is insignificant, while duration is longer for bigger firms and shorter for more profitable companies with no effect of company age. Therefore, this test provides an additional robustness check and support for our hypotheses: even in the presence of greater profitability and size, negative CSR hurts international expansion plans by BRICS firms.

In addition to this analysis, we compared firms with information on CSR (*All positive*, *Mixed negative*, and *All negative*) to those that do not have any such information on a number of ‘firm quality’ metrics (for those observations that we had data). We found that firms with mixed negative information on CSR are significantly better than firms with no information on CSR. Moreover, the comparison of means below suggests that firms with negative CSR are better than firms with positive CSR.

	All positive	Mixed negative	All negative	No CSR
ROA	0.08	0.09	0.09	-3.1
Employees	8.8***	10.4***	9.6***	7.4
Revenues	7.5***	9.5***	8.3***	5.9
Assets	8,885	137,427***	47,280***	6,935
Market cap	5,112**	44,445***	34,373***	3,328
Age	37***	30	36***	29.5
Visibility	74***	542***	433***	44

	H1 Completion	H2 Duration
Majority negative	-1.113** (0.526)	0.744** (0.350)
Minority negative	-0.371 (0.644)	0.419 (0.327)
All negative	-0.0218 (0.511)	0.129 (0.332)
All positive	-0.457 (0.437)	-0.101 (0.261)
ROA	0.00302 (0.0616)	-1.627*** (0.527)
Size	0.0134 (0.0627)	0.113*** (0.0424)
Age	-0.00152 (0.00321)	-0.00285 (0.00251)
Cash payment	-0.427 (0.276)	0.303 (0.204)
Buyer public	-0.712 (0.564)	0.132 (0.360)
Target public	0.827*** (0.320)	0.332 (0.238)
Percent sought	0.000406 (0.00264)	1.90e-05 (0.00213)
Target subsidiary	1.536*** (0.287)	0.695*** (0.209)
Developed host	0.461* (0.236)	0.0486 (0.175)
Experience	-0.0113 (0.0425)	-0.0255 (0.0305)
First time	-0.318 (0.388)	0.133 (0.204)
Brazil	0.430 (0.457)	0.0928 (0.292)
Russia	1.134*** (0.401)	-1.316*** (0.262)
South Africa	1.119** (0.439)	-0.547** (0.263)
India	0.402 (0.317)	-0.855*** (0.226)
Year	-0.106** (0.0431)	0.00576 (0.0290)
Constant	215.7** (86.86)	-10.26 (58.20)
Observations	1,136	827
R-squared		0.107