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Explorando os Efeitos das Distâncias Cultural e Psíquica sobre o Desempenho das Fusões e Aquisições: O Caso das Aquisições Internacionais Realizadas pelas Multilatinas

Probing the Effects of Cultural and Psychic Distance on M&A Performance: The Case of Multilatinas' Cross-Border Acquisitions

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Tese apresentada ao Departamento de Administração da Faculdade de Economia, Administração e Contabilidade da Universidade de São Paulo como requisito para obtenção do título de Doutor em Ciências.

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To my family – wife, daughters and sons-in-law – my warm affection for the support and encouragement, without which this work would not be a reality. Thank you all.

The rapprochement of peoples is only possible when differences of culture and outlook are respected and appreciated rather than feared and condemned, when the common bond of human dignity is recognized as the essential bond for a peaceful world.

James William Fulbright

I am a passionate traveler, and from the time I was a child, travel formed me as much as my formal education. In order to appreciate cultures of another nation, one needs to go there, know the people and mingle with the culture of that country. One way to do that, if one is lucky enough, is to buy things from those cultures.

David Rockefeller

A lot of knowledge in any kind of an organization is what we call task knowledge. These are things that people who have been there a long time understand are important, but they may not know how to talk about them. It's often called the culture of the organization.

Howard Earl Gardner

I want to live in Kolkata; I don't want to live in Europe - I can't write there. I write in Bengali, and I need to be surrounded by the Bengali language and culture.

Taslima Nasrin

ABSTRACT

Cross-border acquisitions (CBAs) have extensively been used by Multilatinas as a preferred entry mode in foreign markets, quickly providing access to resources, competencies and local intelligence without the burden of starting up a greenfield investment and bearing its associated risk to face the liability of foreignness. Using fixed-effects, generalized least square (FEGLS) regressions applied on a panel data sample of 602 CBA deals announced during the 1989-2011 period by 182 Multilatinas competing in 74 industries and headquartered in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela, the impact of cultural and psychic distances (as perceived by investors) on the performance of these CBA deals (measured by acquirers' shareholders' short term announcement returns) was evaluated. Key emerging conclusions are that: a) the national cultural distance composite index, based on Hofstede's four dimensions seems to better predict investors' reaction to CBA announcements in comparison with the other "psychic" distance concepts, such as the administrative and geographical distances between home and host countries; b) investors' perceptions regarding the cultural dissimilarities between these countries are factored in their response as an anticipation of the expected difficulties that acquiring firms' will have during the post-merger integration process, as predicted by the several theoretical streams that focus on the role of culture in M&A; c) due to the positive and significant moderating effect of the *uncertainty avoidance* dimension, investors seem also to perceive that acquirers from home countries characterized by high *uncertainty avoidance* scores will be able to better handle the challenges that they will face in the post-merger integration stage, to the extent that these firms, as recognized in the cross-cultural research literature, have been associated with a preference for organizational rules and procedures that increase the chances of a successful completion of the merger or acquisition deal; d) although its role is recognized in the cross-cultural literature, *power distance* levels have no significant moderating effect on the cultural distance-M&A performance relationship. The models are robust to varying lengths of event windows and to alternative measurements of cultural distance, such as those based on the framework developed by the GLOBE project (House, Hanges, Javidan, Dorfman, & Gupta, 2004) and on the country cultural cluster maps proposed by Ronen and Shenkar (2013). Limitations of this study are pointed out and future research directions are suggested in order to advance our knowledge and understanding of the antecedents of the performance of the cross-border acquisitions made by Multilatinas.

Keywords: Multilatinas. Mergers and acquisitions. M&A. Cross-border acquisitions. M&A performance. Event study. Cultural distance. Psychic distance. Internationalization. Post-merger integration.

RESUMO

Aquisições internacionais têm sido extensivamente usadas por Multilatinas como um modo preferencial de entrada em mercados estrangeiros, permitindo um rápido acesso a recursos, competências e inteligência locais, sem as desvantagens tipicamente associadas a investimentos *greenfield* e os riscos inerentes ao passivo de ser estrangeiro (*liability of foreignness*). Utilizando modelos de regressão de efeitos fixos e estimadores de mínimos quadrados generalizados, aplicados a uma amostra de dados em painel referentes a 602 aquisições internacionais anunciadas durante o período de 1989-2011 por 182 Multilatinas competindo em 74 setores econômicos e sediadas na Argentina, Brasil, Chile, Colômbia, México, Peru e Venezuela, foram avaliados os impactos das distâncias culturais e psíquicas (tais como percebidas pelos investidores) sobre o desempenho destas aquisições (medido pelos retornos de curto prazo aos acionistas das empresas adquirentes). Da análise dos resultados emergem as seguintes conclusões: a) a distância cultural calculada com base nas quatro dimensões de Hofstede parece melhor prever a reação dos investidores aos anúncios das aquisições internacionais, em comparação com os outros conceitos de distância "psíquica", tais como as distâncias administrativa e geográfica entre os países de origem hospedeiro; b) a percepção dos investidores em relação às diferenças culturais entre estes países são aparentemente levadas em consideração, como uma antecipação das esperadas dificuldades que empresas adquirentes enfrentarão durante o processo de integração das empresas adquiridas, tal como previsto pelas várias correntes teóricas que focam o papel da cultura em transações de fusões e aquisições; c) devido ao efeito moderador positivo e estatisticamente significante da dimensão relacionada à *aversão à incerteza* (*uncertainty avoidance*), os investidores também parecem perceber que adquirentes localizados em países caracterizadas pela elevada pontuação nesta dimensão serão capazes de melhor lidar com os desafios que enfrentarão na fase de integração pós-aquisição, na medida em que estas empresas, conforme reconhecido pela literatura empírica, têm sido associadas a uma preferência por regras e processos organizacionais que permitam aumentar as chances de uma bem sucedida aquisição; d) embora o seu papel seja reconhecido na literatura pertinente, a dimensão *tolerância ao poder* (*power distance*) não apresenta efeito moderador significante sobre a relação distância cultural e desempenho das aquisições. Os modelos são robustos para diferentes durações das janelas de eventos, bem como a conceitos alternativos de distância cultural, tais como as baseadas no modelo proposto pelo projeto GLOBE (House et al., 2004) e pelos mapas de classificação cultural dos países desenvolvidos por Ronen e Shenkar (2013). Limitações desta tese são apontadas e direções futuras de pesquisa são sugeridas no sentido de avançar nosso conhecimento e entendimento dos fatores que efetivamente afetam o desempenho das aquisições internacionais realizadas pelas Multilatinas.

Palavras-Chave: Multilatinas. Fusões e aquisições. M&A. Aquisições internacionais. Desempenho das transações de fusões e aquisições. Estudo de evento. Distância cultural. Distância psíquica. Internacionalização. Integração pós-aquisição.

LIST OF ABBREVIATIONS AND ACRONYMS

CAPM – Capital asset pricing model

CAR – Cumulative abnormal return

CBA – Cross-border acquisition

CEO – Chief executive officer

CSA – Country-specific advantage

DMNE – Developed country multinational enterprise

EBITDA – Earnings before interest, tax, depreciation & amortization

EMH – Efficient market hypothesis

EMNE – Emerging market multinational enterprise

FDI – Foreign direct investment

FEGLS – Fixed-effects generalized least squares

FSA – Firm-spcific advantage

GLOBE – Global leadership and organizational behavior effectiveness

HRM – Human resources management

HRO – Home region orientation

IB – International business

ICCM – International cross-cultural management

IFDI – Inward foreign direct investment

ISI – Import substituting industrialization

M&A – Merger and acquisition

MNE – Multinational enterprise

OFDI – Outward foreign direct investment

OLS – Ordinary least squares

PMI – Post-merger integration

R&D – Research and development

ROA – Return on assets

ROE – Return on equity

ROS – Return on sales

SCP – Structure, conduct, performance

SEM – Structural equation model

TCE – Transaction costs economics

UNCTAD – United Nations Conference on Trade and Development

WTO – World Trade Organization

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1 INTRODUCTION

1.1 Latin America, Pro-Market Reforms and the Multilatinas: Some Contextual Facts

Cross-border acquisitions (CBAs) have extensively been used as a key mechanism of international expansion for firms seeking global reach, as they quickly provide access to resources, competencies and local intelligence without the burden of starting up a greenfield investment and/or running the risk to face the liability of foreignness (Ahammad & Glaister, 2011; Teerikangas & Very, 2006). As emphasized by Hopkins (1999), these transactions have become by far the single biggest means of integrating the world's economies.

Yet representing a small fraction of the size of the global M&A activity[1], the volume of cross-border acquisitions have consistently been growing, fueled by the globalization process and other drivers. According to its last World Investment Report, UNCTAD (2013c) reports a total amount of USD 308 billion in CBAs at a worldwide level in 2012, comprising 5,400 deals. Whereas multinational enterprises (MNEs) located in developed economies accounted for 57% of the value and 69% of number of these deals, Latin American firms generated 11% of the value and 4% of the number of transactions.

Over the last 25 years, Latin American firms have demonstrated an aggressive cross-border acquisitive behavior. From negligible levels, CBAs originated in the region have systematically grown since 1990 – when relevant pro-market, macroeconomic reforms started to be implemented in most of the Latin American countries – peaking in 2007 at the total amount of USD 40 billion. Due to the 2008 world financial crisis, CBA deals collapsed in this year and, from 2009 on, rebounded to reach USD 33 billion in 2012, not only in terms of the number deals but also their average value (see **Figures 1** and **2**).

A similar pattern of cross-border acquisitions has also been observed in other emerging market multinational enterprises (EMNEs), which attracted the attention of scholars in the quest for theories and frameworks that could provide sound explanations and predictions

[1] According to Wilmer Cutler Pickering Hale and Dorr LLP (2013), a corporate law firm headquartered in Boston, MA, global M&A deal volume reached a total amount of USD 2.57 trillion in 2012, comprising 28,829 deals, up 19% from the USD 2.16 trillion recorded in 2011, but 4% below the 30,116 deals closed in the past year.

regarding EMNEs' internationalization strategies, reflected in their motivations, patterns of foreign direct investments (FDIs) and their preferred international markets entry modes.

Traditional international business (IB) theories have focused on the internationalization activities of multinational firms headquartered in developed countries (DMNEs), which gave

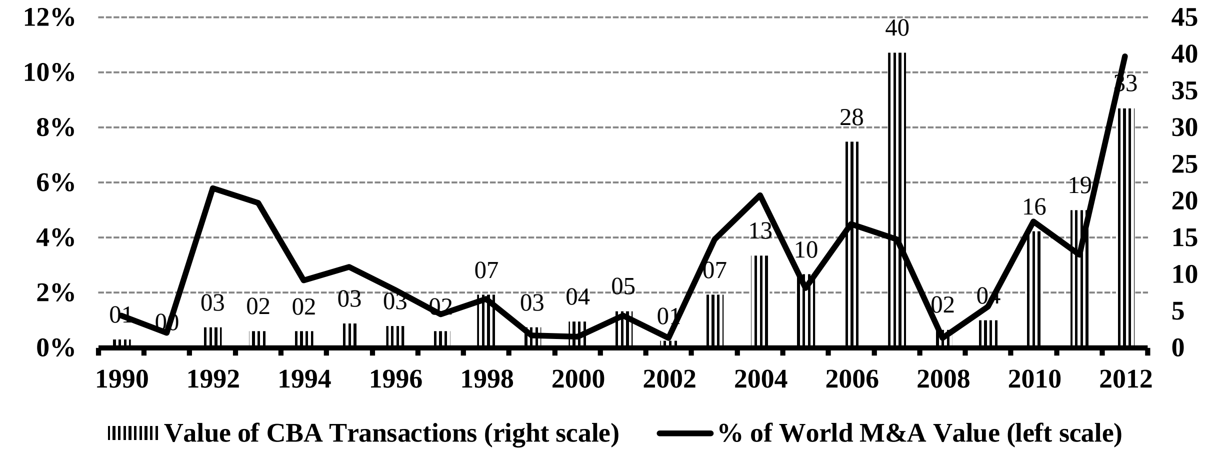

Figure 1. **Cross-border acquisitions by Latin American firms: transaction values (in USD billion) and percentage of total worldwide CBAs**. Source: elaborated by the author, based on UNCTAD (2013b) and UNCTAD (2013a).

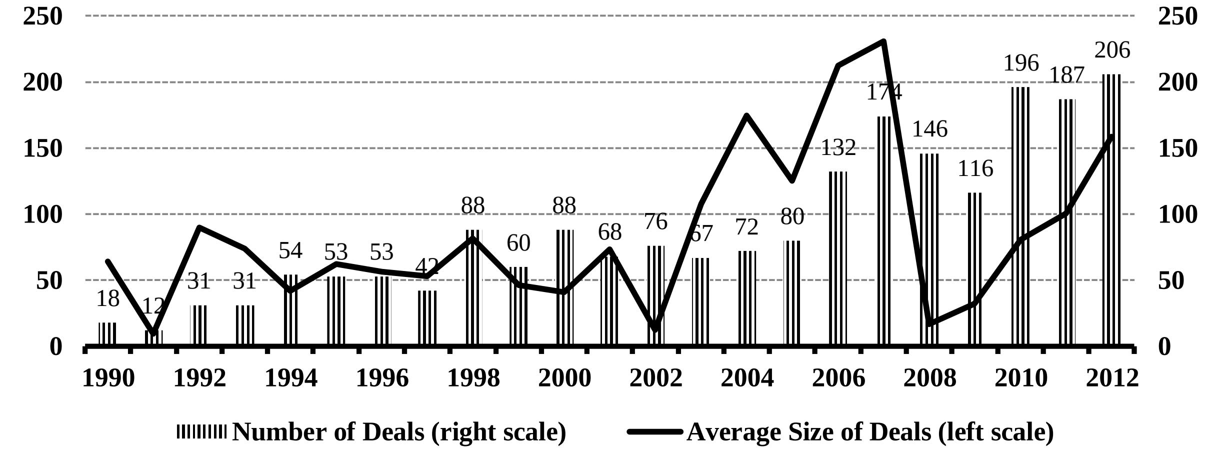

Figure 2. **Cross-border acquisitions by Latin American firms: average size (in USD million) and number of deals**. Source: elaborated by the author, based on UNCTAD (2013b) and UNCTAD (2013a).

rise to the question of whether extant theories adequately explain and predict EMNEs' existence and behavior. As Ramamurti (2009) properly remarks,

> The answer will depend upon what question one asks. Existing IB theories are quite adequate to explain why EMNEs internationalize, what challenges they face in host countries and why they prefer markets or hierarchies, but they fail to explain what the EMNEs' competitive advantages are, where these advantages come from, why some of them make substantial foreign direct investments in developed economies and compete head-on against Western MNEs (2009, p. 418).

Recent literature on EMNE internationalization processes in general and of Multilatinas in particular has stressed that outward FDIs (OFDIs) – a mechanism through which cross-border acquisitions are implemented – cannot be explained without paying attention to the previous development of the domestic firms in their quest for generating ownership-based advantages that can be exploited abroad (Chudnovsky & López, 2000; Cuervo-Cazurra & Dau, 2008; Cuervo-Cazurra & Dau, 2009; Dau, 2012; Dominguez & Brenes, 1997).

In this regard, Latin American economies experienced two significant environmental changes since the 1950s, which significantly contributed to shape countries' and local firm's specific advantages, allowing local firms to extend the geographical scope of their operations: the first is the adoption of a state-led, centrally planned form of economic development from 1950s to 1980s – commonly known as import-substituting industrialization (ISI) policies – and the second, a series of macroeconomic and institutional pro-market reforms that swept the region beginning in late 1980s and early 1990s – commonly known as the Washington Consensus[2].

Despite strongly contested, ISI has undeniably played a central role in the economic development of Latin America. It has taken place naturally at least since the beginning of the Iberian colonization, whenever transportation costs and market size made it profitable. However, the genesis of ISI as a economic development policy is generally assumed as a response to the external chocks of the Great Depression – particularly the collapse of payments and trading systems, declining export prices and demand, and capital transfer reversals – and the consequences of the Second World War (Fitzgerald, 2000).

[2] Economic reforms in Chile took place much earlier. According to Schiavon (2000), the years when reforms began to be implemented in each country are as follows: Argentina 1990, Bahamas 1985, Barbados 1991, Belize 1985, Bolivia 1985, Brazil 1995, Chile 1975, Colombia 1990, Costa Rica 1988, Dominican Republic 1995, Ecuador 1995, El Salvador 1989, Guatemala 1992, Guyana 1989, Haiti 1995, Honduras 1990, Jamaica 1987, Mexico 1985, Nicaragua 1990, Panama 1992, Paraguay 1991, Peru 1991, Suriname 1995, Trinidad and Tobago 1987, Uruguay 1987, and Venezuela 1989.

During the ISI period, in a context of inward-oriented economic policies, Latin American firms concentrated their operations in their respective domestic markets. However, in some cases the development of certain advantages associated with adaptation capabilities, product design, business management and/or production, allowed them to compete successfully in foreign markets with relatively lower level of development, in which these capabilities fit to the needs and demands of local customers. Argentine firms had been the most to advance in this type of operations, followed by Brazilian multinationals (Chudnovsky, Kosacoff, & López, 1999; Garrido, 1999a; Kosacoff, 1999)

These were overwhelmingly market-seeking operations, which correspond to the “first wave” of FDI from developing countries, extensively analyzed by Lall (1983a, 1983b) and Wells (1983). In Brazil, one can still find the latest cases of internationalization based on the ISI, where from the mid-1980s and early 1990s an important set of operations of FDI can be observed – in sectors such as auto parts, metalworking, steel and textiles among others, that were preferentially located in U.S. and Europe – featuring Brazilian firms that had accumulated a set of relevant assets, trade and technology capabilities. Much of these investments are no longer operational or the companies that had made those investments have been absorbed mostly by MNEs from developed countries (Chudnovsky & López, 1999).

As also pointed out by Fleury & Fleury (2011), ISI efforts triggered a dynamic mechanism of technological learning and modernization which significantly improved the domestic technological capabilities, total factor productivity and international competitiveness. Despite the isolation from the international trade flows experienced during this period, there is evidence that the development of technological competences has been strongly improved through learning mechanisms, and that many firms managed to modernize and upgrade, expanding their productivity and competitiveness in world markets.

Organizational transformation processes in a context of drastic changes in competitive environments such as those experienced by the Latin American countries, particularly during the structural reforms, known as the Washington Consensus, have also been studied by Suarez and Oliva (2002, 2005), who contend that firms that successfully cope with radical change in the environment transform themselves into more competitive organizations by organizing their actions around four major transformation stages[3]: operational effectiveness and cultural turnaround, expansion, acquisition of new capabilities and quest for leadership.

Arguing that existing research on organizational adaptation to environmental change deals with major changes that are specific to a particular environmental dimension – while the broader institutional context remains unchanged – Suarez & Oliva (2005) provide a new typology of environmental change, through which they contend that firms, faced with extreme environmental change (a scenario that they dubbed "avalanche") apply a swift and painful treatment in order to accomplish major transformations in a very short period. By studying a sample of firms in four Latin American countries that have undergone major economy-wide reforms the authors investigate firm-level adaptation processes. Their findings support some of the existing theories of organizational adaptation, while challenging other frameworks. The authors find no evidence to support Newman (2000) proposition that "too much" institutional change hinders organizational transformation.

Suarez and Oliva (2005), drawing upon the theoretical lenses from sociological neo-institutionalism and organization adaptation theories, examined the experience of firms in Argentina, Brazil, Chile and Mexico in the immediate aftermath of their respective periods of profound economic reforms. According to these authors, in all four countries, the pre-reform period has been characterized by institutional arrangements in which organizations were tightly coupled to the prevailing state-oriented *architectural template*[4]. This situation was exhausted by drastic economic reforms, bringing a new market-oriented economic and institutional arrangement whose influence was felt on most aspects of organizational life.

Yet according to Suarez and Oliva (2005), the extent of organizational change was vast: in a very short period, firms laid off a large proportion of their work-force (made possible by nationwide labor market reforms), revamped their operations by investing in new technology and equipment (made possible by trade liberalization), renewed the managerial layer by bringing in young professionals, devised new financial and operational strategies (prompted

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[3] A stage of transformation is a period of time during which a firm focuses on a particular set of related issues: the main "theme" behind the actions being undertaken (Suarez & Oliva, 2002).

[4] Templates, according to DiMaggio and Powell (1991), are cultural elements that comprise the organizational environments, i.e., taken-for-granted beliefs and widely promulgated rules imposed by powerful central actors, such as the state and the professions, that constrain and guide organizational behavior and actions.

by the opening up of financial markets), and changed the employees' mindset toward a work ethic were personal effort, compromise and productivity translate into growth and prosperity. This *recreation* of the organization – as defined by Tushman and Romanelli (1985) – required a high level of executive leadership and the attraction of a new breed of young professionals with a new set of market-oriented managerial skills, who filled key upper-middle positions and played a crucial role in the formulation and implementation of new organizational strategies and procedures, i.e., the creation of the new organizational template.

Building on economic geography and knowledge-based theory and using a panel data of the 500 largest Latin American companies from 1989 to 2008, Dau (2013) concludes that pro-market reforms have had positive effects on the profitability of firms by increasing their competitiveness and market knowledge. This effect is greater for multinational firms, for firms that operate in more advanced markets and for firms that become multinational before reforms are implemented. One explanation is that such firms acquire market knowledge abroad that can be used when responding to reforms at home, giving them a head-start advantage over locals.

In this paper, Dau (2013) analyzes how firms learn about different institutional frameworks through their international operations, and how this helps them enhance their responsiveness and adaptability to changing institutions in their home country. As firms learn how to operate in countries with different institutional configurations, they have to adapt and respond to local conditions in order to survive and thrive in those environments. This compels them to develop the necessary internal organizational systems to manage the increased complexity across geographic space. Such an adaptability and responsiveness to vastly diverse institutional processes and changes in turn enhances their ability to respond to institutional changes in their home markets as well. One may extrapolate from this specific idea because, in more general terms, it displays a dynamic in which companies may learn to respond to changes in operating conditions in one setting by learning how to deal with different operating conditions in another setting (Dau, 2013).

Notwithstanding the transformation capability of the Latin American firms, the role of family-owned groups should be properly recognized[5]. One striking characteristics of multinational

[5] In the formulation of the **localized tecnological change theory** to explain the internationalization movements of EMNEs during the so called "first wave" of FDIs (Lall, 1983a, 1983b), Sanjaya Lall was one the first scholars

firms from Latin America – from now on designated as **Multilatinas** (Cuervo-Cazurra, 2007, 2008, 2010; Martínez, Esperança, & De La Torre, 2005) – is that a large proportion of these firms are part of family-owned groups, or business groups (BGs) as they are commonly referred to in the literature, that have become major players in the world economy and, according to Grosse (2007), have held tight ownership control of corporations by vertically integrating and forming larger capital and labor pools, conferring them an edge over the domestic and foreign competitors as these organizations have been capable to circumvent market failures for these kind of resources. Chile is the case where more advanced forms of corporate governance have been adopted, with greater presence of institutional investors (Chudnovsky et al., 1999; Fleury & Fleury, 2011; Garrido, 1999a).

Both the forms and the process of the internationalization of production – particularly when the access to international credit markets are concerned – have led to trends of increased professionalization of the management these Latin American BGs, and to a greater transparency in their operations, as a condition to operate in the new context. The development and growth of pension funds and other institutional investors have also influenced these firms towards partially losing some of its traditional features, especially in regard to management processes and procedures tracing back to the family-owned origins (Chudnovsky et al., 1999).

The specialization patterns of Multilatinas' FDI activities reflect the areas where the BGs are more competitive domestically, which generally are associated with mature industries from the product cycle point of view: services, traditional or commoditized manufacturing activities or sectors linked to natural resources. Some industries appear in all or at least three countries: oil & gas, banking, food, beverages, engineering & construction. Others reflect specific advantages of each country: pharmaceutical and steel in Argentina; textile, steel, pulp & paper and air navigation in Brazil; electricity, forest/wood/pulp/ paper complexes, copper metallurgy, social security and retail in Chile; cement, glass, television and hotels in Mexico (Chudnovsky et al., 1999).

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to recognize the importance of the business group membership to the development of proprietary, firm-specific advantages (FSAs).

The bulk of FDI activity by Latin American firms in the nineties also has a **market seeking** character[6]. However, unlike the previous phase (ISI), this is a search for new markets in a context of open and deregulated economies. This helps to understand that instead of investing in countries with relatively lower levels of development and protected markets, firms in the region primarily expanded towards larger markets with favorable growth prospects. Beyond a few isolated cases, resource-seeking investments are concentrated in the oil and mining industries. These state-led investments have not been the only objective of having more reserves, but also is the capturing of strategic assets in terms of technological practice, training and/or access to skilled human resources. In the case of private companies, it was also to improve the market value of the firm, strengthen its competitive position, while making them attractive candidates to potential buyers and/or partners (Chudnovsky & López, 2000; Garrido, 1999a, 1999b; Kosacoff, 1999).

Overall, the purchase of existing companies by Multilatinas is the predominant entry mode, which has, in several cases, allowed access to certain valuable strategic assets for the acquiring firm: technology, skilled human resources, market position and distribution channels to name a few. Also, while even controlled by stand-alone type organizations, varying forms of integration strategies have been observed, from more simple to complex schemes, the latter less common among firms operating in neighboring countries (Chudnovsky et al., 1999).

There is a common denominator in the type of proprietary advantages possessed by the Multilatinas. Beyond a few exceptions, it is not innovative capabilities or assets at the technological frontier that are involved, but rather management capabilities, domain of well-known and mature processes, efficient production and quality management, access to credit lines and good marketing and distribution skills. In some cases, these advantages are based on the ability of these firms to deploy these resources and capabilities in culturally similar environments (Chudnovsky et al., 1999; Fleury & Fleury, 2011; Garrido, 1999a; Kosacoff, 1999).

[6] See Dunning and Lundan (2008) for a detailed discussion on the four categories related to the motivations that drive MNEs' internationalization strategies: natural resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking.

It should be noted that, in the seventies, some investments seemed to respond to the expected pattern of *tropicalized technologies* suitable for application in underdeveloped countries (Lall, 1983a, 1983b; Wells, 1983). However, in the 1980s and 1990s some firms, particularly in the Brazilian auto parts industry, developed technological capabilities that allowed them to invest in Europe and in the United States based on a "non tropicalized" pattern. This evolution was truncated in most cases by the absorption of these companies by MNEs from developed countries (Chudnovsky et al., 1999; Garrido, 1999a).

Recent literature on EMNEs has shed some light on cross-border acquisitions as one of the drivers of their competitive advantage, particularly for those pursuing a strategic asset-seeking type of FDIs (Dunning & Lundan, 2008). Based upon the analyses of the internationalization processes followed by a sample of EMNEs located in the BRIC[7], P. J. Williamson, Ramamurti, Fleury, and Fleury (2013), contend that CBAs – provided that they are properly managed and seamlessly integrated into the acquirers' organization – provide access to new capabilities, resources and knowledge that will allow them accelerate and improve innovation and adjust their value chain configuration in such a way that will enhance their competitiveness in both the domestic and international markets and, particularly in the case of "sunset industries"[8], promote global industry consolidation. This is in contrast with their traditional developed countries MNEs (DMNEs) counterparts, who have implemented their FDIs (greenfield and/or CBAs) essentially motivated by market-seeking objectives.

[7] Brazil, Russia, India and China.

[8] For these authors, "sunset industries" are those were the technology is relatively mature and customer needs tend to be well defined, such as steel and petrochemicals.

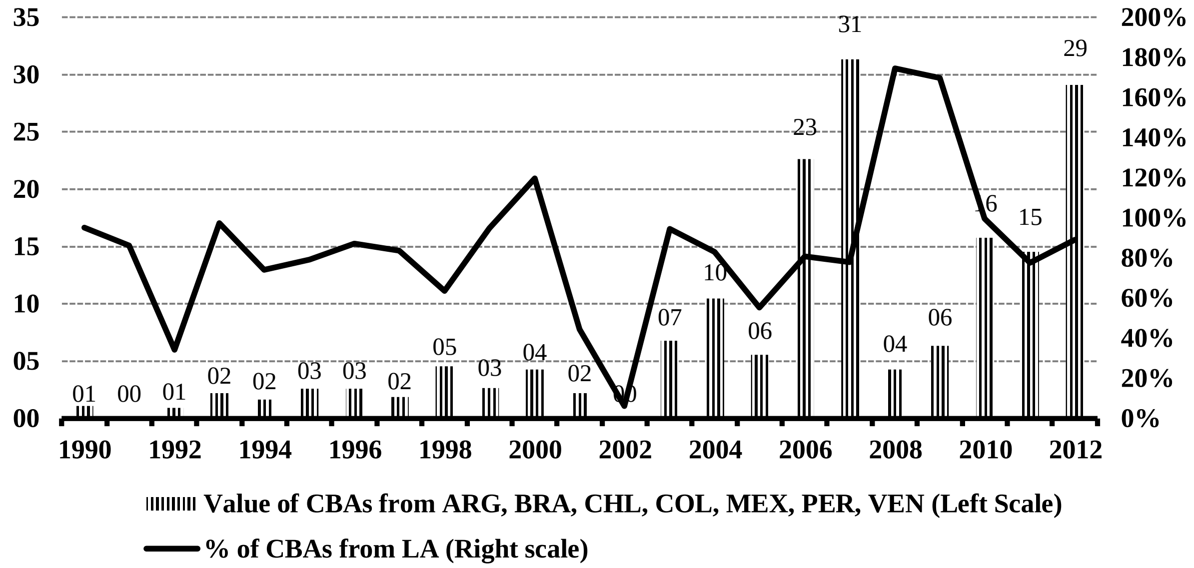

Figure 3. **Cross-border acquisitions by Multilatinas headquartered in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela: values (in US billion) and percentage of total CBAs originated in Latin America and the Caribbean**. Source: elaborated by the author, based on UNCTAD (2013b) and UNCTAD (2013a).

This thesis will focus on cross-border acquisitions made by Multilatinas headquartered in seven countries: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Multilatinas in these countries have been, as previously discussed, actively involved in these kind of transactions and, since 1990, they have accounted for the bulk of these investments emanated from Latin America and the Caribbean (see **Figure 3**).

While, during the 1990s, these seven countries accounted for approximately 80%, on average, of all CBAs originated from Latin America and the Caribbean, this percentage went up to 90% in the 2000-2012 period. The years of 2008 and 2009 were atypical, in the sense that the share of the seven mentioned countries in total CBAs surpassed the 100% threshold. This is because of sizeable negative flows from some countries including Venezuela, Mexico, Panama, British Virgin Islands, Cayman Islands and Puerto Rico[9]. Excluding these atypical years, these countries accounted for more than three quarters of all CBA investments originated in the region.

[9] Though these negative flows might be related with the consequences of the world financial crisis that afflicted a number of developed and developing economies, it is not in the scope of this thesis to provide a detailed analysis of these negative flows. However, it must be said that the negative sign of these flows might be related with the accounting procedures adopted by UNCTAD to reflect accounting losses and/or flow reversals to investors, such as dividend remittances and/or capital repatriations. See these technicalities in UNCTAD (2009).

1.2 Does Culture Matter in M&A?

Over the last decade, the IB literature has made a substantial progress in the study of EMNEs concerning their motivations, patterns of outward FDIs and their foreign market entry modes (including cross-border M&A). However, much remain to be done in order to understand the critical factors that drive the performance of such acquisitions, which led some scholars to suggest further in-depth, longitudinal and qualitative research in order to provide insights into the different approaches that EMNEs adopt to combine country-specific advantages (CSAs), existing FSAs and new FSAs – built from their foreign investment activities – to further improve their competitive advantage (P. J. Williamson et al., 2013).

According to the pertinent academic (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Thanos & Papadakis, 2012) and practitioner-oriented (Christofferson, McNish, & Sias, 2004; Sisk & Sambrook, 2006) literatures, M&A performance in general – regardless the way it is measured – have still been far from the expected levels. In a seminal meta-analytical study, King, Dalton, Daily, and Covin (2004) stunned the academic world postulating that acquiring firms' performance does not positively change as a function of their acquisition activity and that unidentified variables may explain significant variance in post-acquisition performance. This finding led them to suggest the need for additional theory development and changes to M&A research methods.

As will become clear in the succeeding chapters and sections, M&As comprise complex organizational processes – such as target identification and selection, due diligence, negotiation and post-merger integration – which are subject to a number of organizational and behavioral biases[10] that, if not properly recognized, managed and mitigated, can hamper the successful completion of the deal inhibiting the economic value creation, by imposing obstacles to the capture of the expected synergies (Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986). Complexity escalates in cross-border transactions, when effects of the several dimensions of corporate and national cultural – or more broadly speaking, psychic – distance between the acquiring and the target companies come into play in each of these processes (Weber, Shenkar, & Raveh, 1996; Weber & Tarba, 2012).

[10] Generically characterized by Jemison and Sitkin (1986) as impediment factors.

Notwithstanding the fact that extant research on the impact of culture in M&As has delivered a diverse and, sometimes, contradictory explanations of the relationship between cultural distance and acquisition performance (Dikova & Sahib, 2013; Magnusson, Baack, Zdravkovic, Staub, & Amine, 2008; Stahl & Voigt, 2008; Teerikangas & Very, 2006), mounting empirical evidence and the increasing number of meta-analytical studies conducted over the last two decades – some of them using innovative research designs, supported on the process perspective of M&A activity, emphasizing its human aspects – have shown that culture matters in M&A.

This thesis is a complement to the literature related to the internationalization processes of EMNEs in general and of Multilatinas in particular. It will focus on one particular dimension of the performance of the M&A activity conducted by Multilatinas, which is the effect of investors' perception – about cultural and psychic distance between the acquirers' countries and those that host their investments – on their reaction to Multilatinas' cross-border acquisition announcements, a relatively under researched theme in the IB literature.

Specifically, the central proposition of this study is the search for answers to four fundamental research questions:

1. Are investors' reaction to CBA announcements made by Multilatinas affected by their perceptions regarding the cultural distance between acquirers' home and targets' host countries?
2. At what extent other variables, related to the "psychic distance" concept, help improve the explanation capability of the proposed model?
3. Are there variables that moderate the relationship between cultural distance and CBAs performance?
4. Does the use of alternative cultural and/or psychic distance measurements support the robustness of the model?

To accomplish this task, this thesis will be structured as follows: after a brief introduction about the Latin American institutional and economic contexts in which Multilatinas developed their competitive capabilities as a strategic response to the pro-market reforms that swept the region in the 1990s and some preliminary notes about the role of culture in M&A, **chapter 2** will provide the main theoretical background to the development of this thesis, presenting the key conceptual definitions on cultural, psychic and institutional distances and how national cultural distance is measured in the empirical literature (**section 2.1**), discussing the relevant aspects related to the M&A phenomena (**section 2.2**), presenting the main theoretical strands concerning the role of culture in M&A (**section 2.3**), debating, through a review of the empirical literature, the controversial issue on the effects of cultural distance on M&A performance (**section 2.4**) and, based on the behavioral finance literature, presenting arguments that will relax the market efficiency hypothesis on which the event study methodology is grounded, and discussing how investors react to CBA announcements (**section 2.5**). **Chapter 3** will be dedicated to the formulation of the hypotheses, **chapter 4** will cover the method and the econometric models used for hypotheses testing, **chapter 5** will detail the sample choice and data sources, **chapter 6** will discuss the results and **chapter 7** will conclude, presenting a discussion of the findings, of the main limitations of this research and proposing possible directions for future research that can contribute to knowledge generation and theory extension on this under researched subject, which is the performance of CBA transactions conducted by Multilatinas.

As a clarifying note, the terms “mergers” and “acquisitions” and the acronym M&A used to refer them are used interchangeably in this study, notwithstanding their conceptual and legal differences. Whereas “merger” refers to the merging of two previously separate and similarly sized organizations and their operations into one entity, “acquisitions” denote a transaction in which the acquiring firm – usually bigger than the target – uses capital in the form of stock, debt or cash, to buy another company (Teerikangas, Joseph, & Faulkner, 2012b). This apparently lack of rigor is generally accepted in the culture-M&A performance empirical research since, under the process view of M&As (see **section 2.2.5.1**), both involve the “marriage” of two culturally distinct organizations that will face the same challenges to overcome the typical cultural barriers that, if not properly managed, will hinder the socio-cultural integration, knowledge and/or capability transfer and resource sharing. Furthermore, truly “merger” transactions are very rare in the corporate world (Ghauri & Buckley, 2003) and, according to UNCTAD (2000), cited by Ghauri and Buckley (2003), they represent less than 3% of the cross-border deals. In the case of this research, all 602 observations that make up the sample are pure acquisitions that have been announced by Multilatinas.

2 THEORETICAL BACKGROUND

2.1 Cultural, Psychic and Institutional Distance Concepts

2.1.1 Cultural Distance

2.1.1.1 What is Culture?

Culture is a multilevel, complex and powerful construct and has been defined in many ways by scholars from different research streams. Adler and Jelinek (1986), for example, propose the following definition:

> … culture, whether at national or organizational level, is frequently defined as a set of taken-for-granted assumptions, expectations, or rules for being in the world. As paradigm, map, frame of reference, interpretive schema, or shared understanding, the culture concept emphasizes the shared cognitive approach to reality that distinguish a given group from others (1986, p. 74).

Schein (1985), referring specifically to culture at the organizational level, defines culture as

> … a pattern of basic assumptions – invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems (1985, p. 9).

Referring to its complexity, Buono, Bowditch, and Lewis (1985) propose the following definition: "in its broader sense, culture can be thought of as that part of the entire repertoire of human action and its products which are socially as opposed to genetically transmitted (1985, p. 479)".

According to Boyacigiller, Kleinberg, Phillips, and Sackmann (2007), a number of researchers from the international cross-cultural management (ICCM) field have come to share a set of assumptions about culture, whether they are stated explicitly or implied through their texts:

a) The core of culture is composed of explicit and tacit assumptions or understandings commonly held by a group of people;
b) A particular configuration of assumptions/understandings is distinctive to the group;
c) These assumptions/understandings serve as guides to acceptable and unacceptable perceptions, thoughts, feelings and behaviors;
d) They are learned and passed on to new members of the group through social interaction;
e) Culture is dynamic and change over time.

In their ICCM literature review, Boyacigiller et al. (2007) identify three major research streams. The first comprises ICCM studies with a focus on *cross-national comparisons*, the second are concerned with *intercultural interactions* and the third group concentrates on studies from a *multiple cultures* perspectives. Their distinct interpretations of the culture construct emerge from different political social, economic, and intellectual environments and are supported by different sets of assumptions and theories.

Adopting the nation-state as the unit of analysis, cross-national comparison research is still the predominant group in the ICCM literature and is primarily concerned with *what culture does* i.e., the linkage between culture and the behavior or attitudes of individuals and groups in organizations or the behavior of organizations as entities. Under the underlying assumption that cultural boundaries were assumed to coincide with national boundaries, national (and hence cultural) identity was assumed to be a given single and immutable characteristic of an individual. Culture – as is learned as one is socialized into a national culture – is assumed to be a coherent and enduring set of values that members of the nation-state carry and invariably act upon (Boyacigiller et al., 2007).

Four main representatives of this research stream – Hofstede's (1980) and Trompenaars & Hampden-Turner's (1998) cultural dimensions frameworks, the GLOBE project (House et al., 2004) and Ronen and Shenkar's (1985, 2013) cultural clustering model – will be discussed with some detail in the next section, as they will be closely related with the central proposition of this thesis. Inasmuch as this thesis is concerned about the effects of cultural differences on firms, it is worth mentioning that all these above mentioned studies have been based on surveys involving individuals in managerial positions in one or more orrganizations located in a number of different countries, in contrast with Schwartz's (1994a, 1994b) studies that were based on surveys of teachers and students around the world (Magnusson, Wilson, Zdravkovic, Zhou, & Westjohn, 2008).

Whereas Hofstede (1980) defines culture as the “collective programming of the mind which distinguishes members of one human group from another”(1980, p. 13), for Fons Trompenaars and Hampden-Turner (1998) culture is viewed as “the way in which a group of people solves problems and reconciles dilemmas” (1998, p. 6).

GLOBE project’s central theoretical proposition is that “the attributes and entities that distinguish a given culture from other cultures are predictive of the practices of organizations and leader attributes and behaviors that are most frequently enacted, acceptable, and effective in that culture” (House, Javidan, Hanges, & Dorfman, 2002, p. 8).

Ronen and Shenkar – recognizing the fact that political, economic, social and regulative institutions define the power of the nation state as a cultural delimiter – define culture as “a shared way of life of a group of socially interacting people, transmitted form one generation to the next via acculturation and socialization processes that distinguish one group’s members from others” (2013, p. 868) and propose a country cultural clustering scheme based upon extant research on work-related cultural differences.

Addressing key issues of intensifying significance in the increasingly globalized business environment, intercultural interactions researchers’ immediate concern is the **interaction** of people from different nations in organizational contexts. Their main focus is the quest for answers to a fundamental research question: what impact does the meeting of national cultures have on an organization and its members? In contrast with the cross national comparison strand, researchers in this stream adopt a social constructionist approach, viewing culture as emergent, arising from the interaction among people as they make sense of the environment in which they live and work. Culture, therefore, is reflection of sense making, a process that suffers the influence of a number of contextual factors, such as the relative power of the organizational actors, of how cultural identity is constructed and enacted and the effect of intercultural communication process on cultural negotiation (Boyacigiller et al., 2007).

Multiple cultures researchers recognize that an organization is a heterogeneous, pluralistic system whose members live within a larger complex society, which implies that its members may develop sets of assumptions within the organization setting but they can also bring with them assumptions that they acquire outside of the organization. For these researchers, the organization is viewed as a potential carrier of a multiplicity of separate, overlapping, superimposed or nested cultures, with the organization individuals maintaining simultaneous membership in a number of theses cultural groups that may exist and coexist. Much of their research aim at searching answers to different research questions such as: when and under which conditions do certain cultural groups become salient and more relevant than others? How do the various cultures interact under different circumstances? How do individuals deal with their multiple identities? What are the implications for managerial practice? In contrast with the cross national comparison, but similar to intercultural interaction stream, multiple cultures perspectives research also adopts a social constructionist approach. However, the most significant difference between these two latter strands is the relative emphasis each place on national culture. Whereas intercultural interactionists view national culture as a powerful force in shaping sense making and action within an organization, multiple cultures perspective makes no such a priori assumption (Boyacigiller et al., 2007).

2.1.1.2 National Culture

As previously stated, culture is a multilevel construct, given that people carry several "layers of mental programing", as suggested by Hofstede (1997): a *national* level (according to one's country), a *regional* and/or *ethnic* and/or *religious*, and/or *linguistic* affiliation (as most nations are composed of culturally distinct regions and/or ethnic and/or language clusters), a *gender* level, a *generation* level, a *social class* and/or *professional* level and an *organizational* level. Other researchers add another level, related to specificities of *industries* as shapers of specific types of culture, affecting individuals and organizations attitudes and behaviors (Chatman & Jehn, 1994; Gordon, 1991; Phillips, 1994).

In the model proposed by Schein (1985), culture is represented at three levels, arranged according to their visibility: 1) *underlying assumptions*, 2) *beliefs and values* and 3) *artifacts and behaviors*. The first, embedded in national cultures, is the deepest and less visible level that prescribe ways of perceiving, thinking and evaluating the world, self and others, also including views of the relationship with nature and of human relationships (Schneider, 1988), and will be covered in this section, with the discussion of the four frameworks mentioned in the previous section.

While the third level, *artifacts and behaviors*, is the easiest to observe – looking at physical spaces, the technological outputs of the firms, their written and spoken language – the intermediate level, *beliefs and values*, reflects an individual's sense of what "ought" to be, as distinct from what "it is". Some values remain conscious and are explicitly articulated as they serve the normative or the moral function of guiding leading members or coalitions within organizations in dealing with certain key situations and/or decisions (Schein, 1985).

Management researchers posit that corporate culture can change levels 2 (*beliefs and values*) and 3 (*artifacts and behaviors*) but will have little impact on level 1 (*underlying assumptions*) which characterizes the national cultures (Laurent, 1986). This is because corporate culture is associated to a secondary socialization process that individuals experience as adults without eliminating the primary socialization process experienced during childhood, which implies that national culture is likely to be more deeply anchored in individuals' minds than organizational culture (Teerikangas & Very, 2006).

A vast body of empirical research has demonstrated that national cultures help determine corporate cultures (Johnson & Turner, 2010), shape the prevailing management style and the preferred management practices of acquiring companies (Calori, Lubatkin, & Very, 1994; Child, Faulkner, & Pitkethly, 2001; Lubatkin, Calori, Very, & Veiga, 1998), and that national culture differentials between acquiring and target companies impact the capture of synergies in cross-border acquisitions (Brock, 2005), and affect their performance (Slangen, 2006). National cultures also influence the way organizations perceive environmental uncertainty and, therefore, affect their idiosyncratic mode to interpret and respond to key strategic issues (Schneider & De Meyer, 1991).

As stressed by Weber et al. (1996), referring to international cross-border acquisitions, national culture differentials better predict stress, negative attitudes towards the merger and cooperation than corporate culture differences do. In their words,

> … studying corporate culture outside the context of national culture leads to the same fault directed against the national culture school, namely the treatment of culture as a residual variable, precluding a valid argument of causality (1996, p. 1216).

After these introductory comments, the four main analytical frameworks related to the cross-national cultural comparisons are discussed, beginning with Hofstede's proposal.

In late 1960's and beginning 1970's Hofstede (1980, 1997), a Dutch academician, had the opportunity of studying a large body of survey data about the values of one specific kind of people in over 50 countries around the world: people that worked in local subsidiaries of IBM, a very well known multinational corporation. Taking advantage from the fact that, from one country to another, they showed similarities in all respects except nationality, the effects of their nationality differences were unusually clear on their answers to the questions that have been formulated in a series of surveys.

A statistical analysis of the answers revealed common problems with solutions differing from country to country in four key areas, which Hofstede (1997) called cultural dimensions[11]:

1. Social inequality, including the relationship with authority: the *power distance* dimension;
2. The relationship between the individual and the group: the *collectivism* versus *individualism* dimension;
3. The concepts of masculinity and femininity and the social implications of having been born a boy or a girl: the *femininity* versus *masculinity* dimension;
4. Ways of dealing with uncertainty, relating to the control of aggression and the expression of emotions: the *uncertainty avoidance* dimension.

According to this author, *power distance* can be defined as the extent to which the less powerful members of institutions and organizations expect and accept that power is distributed unequally; *individualism* pertains to societies in which the ties between individuals are loose – in contrast to *collective* societies in which people (from birth onwards) are integrated into strong, cohesive in-groups which continue to protect them in exchange for unquestioning loyalty; *masculine* societies are those in which social gender roles are clearly distinct – men are supposed to be assertive, tough and focused on material success, whereas

[11] Dimension, according to Hofstede (1997), is defined as an aspect of a culture that can be measured relative to other cultures.

women are supposed to be modest, tender and concerned with the quality of life – and the opposite, *feminine* societies, are those in which social gender roles are similar and both, men and women, are supposed to be modest, tender and concerned with the quality of life; *uncertainty avoidance* can be defined as the extent to which the members of a culture feel threatened by uncertain or unknown situations, a feeling that can be expressed through a nervous stress and in a need for written and unwritten rules (Hofstede, 1997). **Table 1** details the contrasting differences associated with opposite positions in each of the four Hofstede's cultural dimensions.

Table 1

Key Differences Between the Opposite Hofstede's Dimensions in the Workplace

Small power Distance	**Large power distance**
Hierarchy in organizations means an inequality of roles, established for convenience	Hierarchy in organizations reflects the inequality between higher-ups and lower-downs
Decentralization is popular	Centralization is popular
Narrow salary range between top and bottom of the organization	Wide salary range between top and bottom of the organization
Subordinates expect to be consulted	Subordinates expect to be consulted
The ideal boss is a resourceful democrat	The ideal boss is a benevolent autocrat or good father
Privileges and status symbols are frowned upon	Privileges and status symbols are both expected and popular
Collectivist	**Individualist**
Relationship employer-employee is perceived in moral terms, like a family link	Relationship employer-employee is a contract supposed to be based on mutual advantage
Hiring and promotion decisions take employees' in-group into account	Hiring and promotion decisions are supposed to be based only on skills and rules
Management is management of groups	Management is management of individuals
Relationship prevails over task	Task prevails over relationship

(continue)

Table 1 (continued)

Key Differences Between the Opposite Hofstede's Dimensions in the Workplace

Feminine	**Masculine**
Work in order to live	Live in order to work
Managers use intuition and strive for consensus	Managers expected to be decisive and assertive
Stress on equality, solidarity, and quality of work life	Stress on equity, competition among colleagues and performance
Resolution of conflicts by compromise and negotiation	Resolution of conflicts fighting them out
Weak uncertainty avoidance	**Strong uncertainty avoidance**
There should not be more rules than necessary	Emotional need for rules, even if these will never work
Time is a framework for orientation	Time is money
Comfortable feeling when lazy; hard working only when needed	Emotional need to be busy; inner urge to work hard
Precision and punctuality have to be learned	Precision and punctuality come naturally
Tolerance of deviant and innovative ideas and behavior	Suppression of deviant ideas and behavior; resistance to innovation
Motivation by achievement and esteem or belongingness	Motivation by security and esteem or belongingness

Note. Source: Hofstede (1997)

Fons Trompenaars and Hampden-Turner (1998) proposed a seven dimension-based framework, sharing a similar conceptual view of Hofstede in that each country (i.e., each culture) to have a shared set of core values and norms guiding their members behavior. However they differ in which values they believe capture these national differences. Their framework consider five dimensions stemming from the sociological studies conducted by Parsons (1951) – universalism/ particularism, individualism/collectivism, affectivity (neutral/emotional), specificity (specific/diffuse), and achievement/ascription – and later added two additional dimensions related with attitudes toward time and attitudes toward the environment (see **Table 2** for the description of each cultural dimension). Data was collected by way of a survey during the 1980s and 1990s involving managers in 54 countries. This framework has been acclaimed as contemporary, theoretically sound and for using sophisticated sampling techniques (Magnusson, Wilson, et al., 2008; Uhlenbruck, 2004).

Table 2

Trompenaars & Hampden-Turner's Framework Cultural Dimensions

Dimensions	**Description**
Universalism – Particularism	Does a universal set of rules always apply or can cases be dealt with on an individual basis?
Individualism – Collectivism	The extent to which societies emphasize the individual or the community
Neutral – Emotional (Affectivity)	The amount of feelings that is deemed acceptable to display publicly
Specific – Diffuse (Specificity)	The extent to which people engage others in specific areas of life
Achievement – Ascription	The extent to which certain members of a society is given higher status
Attitude toward time	How members of a society view the past, present and future?
Attitude toward environment	Does the society have an urge and ability to control nature, or does nature control the society

Note. Source: Adapted from Magnusson, Wilson, et al. (2008) and Uhlenbruck (2004)

Inspired by the work of Hofstede (1980), the GLOBE project - an acronym for the ***G****lobal* ***L****eadership and* ***O****rganizational* ***B****ehavior* ***E****ffectiveness* ***R****esearch* ***P****rogram* – is a worldwide, multiphase, multimethod project. It was conceived in the summer of 1991 and was intended to conceptualize, operationalize, test and validate relationships between culture, leadership, organizational effectiveness, economic competitiveness of societies, and the human condition of members of the societies involved in the project (House & Javidan, 2004).

GLOBE developed their nine cultural dimensions (see **Table 3** for details) from a review of extant organizational and cultural theory, which generated 735 questionnaire items. Responses to these questions by middle managers in several organizations, competing in financial services, food processing and telecommunications industries, and located in 58 countries (comprising 62 cultures) were analyzed by conventional psychometric procedures, such as item analysis, factor analysis, cluster analysis and generalizability analysis (House & Javidan, 2004; Magnusson, Wilson, et al., 2008).

Table 3

Cultural Dimensions in Project GLOBE Framework

Dimensions	**Description**
Uncertainty Avoidance	The extent to which members of an organization or society strive to avoid uncertainty by on established social norms, rituals and bureaucratic practices
Power Distance	Degree to which members of an organization or society expect and agree that power should be stratified and concentrated at higher levels of an organization
Institutional Collectivism	Degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action
In-Group Collectivism	Degree to which individuals express pride, loyalty and cohesiveness in their organizations or families
Gender Egalitarianism	Degree to which an organization or a society minimize gender role differences while promoting gender equality
Assertiveness	Degree to which individuals in organizations or societies are assertive, confrontational and aggressive in social relationships
Future Orientation	Degree to which individuals in organizations or societies engage in future-oriented behaviors such as planning, investing in the future, and delaying individual or collective gratification
Performance Orientation	Degree to which an organization or society encourages and rewards group members for performance improvement and excellence
Humane Orientation	Degree to which individuals in organizations or societies encourage and reward individuals for being fair, altruistic, friendly, generous, caring and kind to others

Note. Source: House and Javidan (2004)

In contrast with the preceding frameworks, GLOBE introduced an advancement which was their intention to capture both a culture's *values* and *practices*. For each dimension, two forms of questions had been formulated. The first measured managerial perceptions of *actual* practices in their organizations and societies, i.e., managerial reports of what values *are* in their organizations and societies (labeled by GLOBE project's coordinators as "As Is" responses). The second measured managerial perceptions of what current practices and values *should be* in their organizations and societies (labeled as "Should be Values" responses).

According to House and Javidan (2004), while responses to "As Is" questions reveal the perceptions of middle managers concerning *current practices* in their societies and their organizations, responses to "Should Be" questions reveal managers' *values* with respect what they believe *should be* the practices in their societies or organizations[12].

Interestingly, GLOBE researchers found "counterintuitive" negative correlations between values and practices for several dimensions (House & Javidan, 2004; Magnusson, Wilson, et al., 2008)[13], a fact that led Hofstede (2006) ascribe such results to design flaws in the questionnaires used in the GLOBE study. In a step further, Maseland and Van Hoorn (2009) in a research note, resort to the Marshallian economic *principle of diminishing marginal utility* to explain such apparent incoherence[14]. According to these authors, what GLOBE *value* survey (i.e., the answers to the *should be* questions) actually elicit are the individuals' *marginal preferences.* This discussion will be recaptured in **chapters 6 and 7**.

Back in mid eighties, Ronen and Shenkar (1985) reviewed eight empirical studies – two of them being Hofstede's (1976, 1980) well known works – using data related to employee work attitudes[15], discuss the major dimensions accounting for similarities among countries and present a synthesis of clusters based on these similarities. The various variables used in those studies were grouped into five categories: work goal importance, need deficiency, fulfillment

[12] Italics from the author.

[13] According to House et al. (2004), seven out of nine dimensions showed unexpected negative correlations between values and practices, significant at the 5% level: assertiveness (*r=-0.26*), institutional collectivism (*r=-0.61*), future orientation (*r=-0.41*), humane orientation (*r=-0.32*), performance orientation (*r=-0.28*), power distance (*r=-0.43*), and uncertainty avoidance (*r=-0.62*). Whereas gender egalitarism was the only dimension showing a significantly positive correlation (*r=0.32*), no significant correlation was found for the *in-group collectivism* dimension.

[14] This principle states that the more an objective is satiated, the less people value the further realization of that objective.

[15] Examples of these attitudes and values include those toward achievement, practical mindedness, sharing information, taking initiative, democratic leadership styles, and commitment to an organization (Park & Ungson, 1997).

and job satisfaction, managerial and organizational variables and work role and interpersonal orientation. Based upon these empirical studies, 27 countries have been classified in nine clusters: Arab, Near Eastern, Nordic, Germanic, Anglo, Latin European, Latin American, Far Eastern and Independent, the latter comprising four countries (Brazil, Israel, Japan and India).

Ronen and Shenkar (1985) also report two unexpected outcomes in what relates with this thesis. The first was Brazil's classification in the Independent cluster and not in the Latin American cluster which, according to the authors, increases the awareness of nongeographic variables, suggesting that one should simultaneously consider factors such as economic development. The second was the separation of the Latin Europeans (France, Belgium, Italy, Spain and Portugal) from the Latin Americans (Argentina, Venezuela, Chile, Mexico, Peru and Colombia), again due to differences in levels of economic development, leading to differences in the individualism/collectivism factor[16] (Ronen & Shenkar, 1985).

By defining the country (instead of individual cultures) as the unit of analysis, Ronen and Shenkar (1985) argue that the clustering of countries has important implications, particularly for managers of MNEs who can better understand the basis for similarities and differences between countries, allowing them to place international assignees more effectively, establish compatible regional units and predict the results of policies and practices across national boundaries. The implications for cross-border M&As also become evident, particularly in the post-merger integration phase, a crucial step highly dependent on the interaction of human resources from the acquirer and from the target (Child et al., 2001; Krug, 2009; Krug & Hegarty, 2001).

Applications of Ronen and Shenkar (1985) synthesized country clustering scheme include Barkema, Shenkar, Vermeulen, and Bell (1997) study of the role of domestic joint ventures in learning processes to successfully operate international joint ventures by Dutch multinationals, Park and Ungson (1997) analysis of the effects of partner nationality, organizational dissimilarity and economic motivation on the dissolution of joint ventures, and Vachani (1991) proposal of a comprehensive measure of global diversification that comprises

[16] In fact, the phenomenon that increasing levels of economic development are positively correlated with increasing levels of individualism was detected by Hofstede, when he analyzed and compared his surveys results in different time frames.

related and unrelated product diversification, and related and unrelated international geographic diversification.

Twenty eight years later, building on major culture clustering studies published since Ronen and Shenkar (1985) paper and using modern cluster analysis and multidimensional scaling techniques, Ronen and Shenkar (2013) extended their previous study and rigorously derived a synthesized cluster map, displaying a three-layered, nested plot with empirical (rather than intuitively drawn and not supported by statistical rigor) boundaries and measures of intra-cluster cohesiveness and inter-cluster relative adjacency[17].

Compared with the previous paper, this one expands the number of countries to 70 (from 46, in 1985) and the number of global clusters to 11 (from 8, in 1985 plus three independent countries, or singletons – Brazil, India and Japan). Cutting the dendogram at three distinct points, the authors identify three different clustering schemes, depending upon the number of times each country appeared within the aforementioned eleven input studies. These 11 global clusters comprise 15 "consensus" clusters[18] and six singletons (Austria, Brazil, India, Israel, Japan and South Korea), which together breakdown into 38 "local" clusters[19]. According to these authors, an empirically derived clustering of countries on the basis of work-related attitudes, values and beliefs can be considered a classificatory landscape upon which theoretical frameworks are superimposed:

> … the clustering of cultures can be viewed as the parsing and ordering of the culturally meaningful environments in which organizations are embedded, a process we call "cultural mapping" … that creates a substitute for the controversial construct of cultural distance, a proxy for cultural differences that fails to capture the complexity of inter-cultural interaction (Ronen & Shenkar, 2013, pp. 890-891).

[17] To be included in their analysis, the input studies had to meet six requirements: a) utilize work-related values/attitudes, b) empirically yield a clustering solution, c) utilize raw data, d) survey practicing or potential employees (not students), e) include multiple regions and over 15 countries, and f) be published or updated between 1985 and 2005, and appear in scholarly outlets. Eleven studies met those requirements (Brodbeck et al., 2000; Foley, 1992; Hofstede, 2001; House et al., 2004; Inglehart & Baker, 2000; Merritt, 2000; Ronen & Shenkar, 1985; Schwartz, 1999; P. B. Smith, Peterson, & Schwartz, 2002; F. Trompenaars, 1994; Zander, 2005).

[18] Those that comprise countries that appear in 50% of the input studies.

[19] As far as Latin American countries are concerned, no significant change is noticed regarding the cluster composition, except the fact that Brazil changed its status from an "independent" country in 1985 to a cluster member of a "global" Latin American cluster in the 2013 study.

Another commonly used framework to measure national culture differences, which will not be covered in this thesis, is Schwartz's (1994a, 1994b, 1999) seven-dimension framework proposal. A number of studies examined and compared the validity of this and the previously discussed frameworks, including Magnusson, Wilson, et al. (2008) from the US perspective (i.e., measuring national culture differences with respect to US), Drogendijk and Slangen (2006) from the Dutch perspective and Ng, Lee, and Soutar (2007) from the Australian perspective.

Despite its incontestable contribution to probing the impact of cross-country cultural differentials on a numerous of international business activities (including M&A) and firms' behavior, this extensive work on cross-national cultural comparison, based on the identification of major cultural dimensions, does not go without its detractors. Major criticisms have been directed towards the positivist approach of this research stream both at ontological and epistemological levels.

According to Yeganeh and Su (2006), the positivist assumptions regarding culture is that it exists and it constitutes of real systems of beliefs and values with deterministic relations among the constituent parts. The goal of research is to explain culture as an objective reality and most of the time it is supposed that there is only one possible answer to research questions. Positivists posit that operationalization and reduction are useful for simplifying and explaining such an abstract concept as culture is. Most of the positivist studies, according to these authors, are characterized by rigor and internal validity, their results being relatively context-free and replicable in similar cases. The aim of researchers is to discover narrow cause-and-effect relationships and generalizable law-like solutions that permit the prediction of implications of culture for organizations.

Also making specific remarks on the drawbacks of an alternative and contrasting social constructivism method[20], Yeganeh and Su (2006) propose a new framework, suggesting a

[20] Social constructivism focuses specially on the actors' interpretation of constructions of cultures. Viewing culture as a mental construction implies a hermeneutic approach to investigation rather than using standardized measures. The researcher is looking for the "meaning" of cultural phenomena rather than possible relationships among constituents. Interpretive analysis of culture requires an emphatic approach to in which an attempt is made to understand culture holistically and from the perspective of the participants, rather than through objective analysis by surveys and questionnaires. Studies adopting a constructivist approach rely mostly on qualitative methods and try to provide thick, interpretive and microscopic understanding of cultural phenomena (Yeganeh & Su, 2006).

rapprochement between the dominant positivist and the constructionist approaches, which can mitigate some of the conceptual and theoretical problems inherent in the traditional procedures used to measure cultural distances between countries. This is one of the topics to be covered in **section 2.1.1.5**.

2.1.1.3 Corporate (or Organizational) Culture

Using the organization as the unit of analysis, the organization culture literature exhibits considerable variation in focus and methods, as conceptualizations of culture range from viewing it as something an organization "has" – i.e., a variable that managers can manipulate to their desired ends – to viewing it as something an organization "is", i.e., what Smircich (1983) characterized as "expressive forms, manifestations of human consciousness" (Boyacigiller et al., 2007).

According to Teerikangas and Very (2006), the notion of organizational culture – whose definition had been commonly associated with beliefs, values, and assumptions shared by an organization's members – was introduced in early 1960s, but it was not until the 1980s, with the publication of the works of Ouchi (1981) and Peters and Waterman (1982) that this topic aroused the interest of academic researchers and the corporate world.

For the purpose of being closer to the central proposition of this thesis, a brief review of the literature on corporate culture, its role on M&A performance (either domestic or cross-border) and how corporate cultural distance have been measured will be covered in this section. A more theoretical approach on this role is developed in **section 2.3**.

Interest in the enquiry on how corporate culture impacts the performance of M&A deals dates back in early 1980s and have initially highlighted the human side of these transactions, and focused on the consequences of mergers and acquisitions on attitudes and perceptions of organizational members (Buono et al., 1985) and whether differences in management styles – a proxy of the measurement of the cultural fit between the acquiring and target firms – matters in assessing the performance of post acquisition integration processes (Datta, 1991).

As emphasized by Datta (1991), *management style* has been described as an idiosyncratic element of the managerial or subjective culture of an organization and comprise a number of factors (or dimensions), including management teams' attitudes towards risk, their decision-making approach, and preferred control and communication patterns. Management styles are unique to organizations and may differ across firms, even within the same industry and same country, along those mentioned dimensions. Datta's (1991) research represents one the first pioneering efforts to measure differences in management styles (i.e., differences in corporate culture) using a 17-item questionnaire adapted from an existing instrument developed by Pradip Khandwalla (1977).

One year later, the seminal research of S. Chatterjee, Lubatkin, Schweiger, and Weber (1992) – designed to answer the research question whether cultural differences matter in assessing investors' reaction to domestic related acquisition announcements made by US acquirers – expanded the corporate culture measurement instrument to seven dimensions and 29 measurement items associated with these dimensions. According to Weber and Tarba (2012), those dimensions capture the concept that *corporate culture*, besides being a system of beliefs, values and assumptions shared by managers, is also a desired way of managing the organization so that it can adjust to its environment. **Table 4** summarizes the characteristics and meaning of each of those dimensions.

Table 4

Dimensions of Corporate (or Organizational) Culture

Dimensions	**Description**
Innovation and Action Orientation	The extent to which organizations encourage rapid response to changes and to competition in outside environments and explore innovation opportunities in terms of new products, new markets, new technologies and new business models
Risk-Taking	This dimension is related to the management philosophy and beliefs concerning risk taking, which may affect a number of decisions regarding investments in innovation initiatives, market development, R&D investment levels, and financial management policies, amongst others
Horizontal Relationship (or Lateral Integration)	The extent to which – through coordination mechanisms of varying complexities – cooperation, knowledge sharing and competition between the various units is encouraged either to achieve the organizational goals and foster motivation and effort
Vertical Hierarchical Contact (Top Management Contact)	Addresses management beliefs about attitudes toward subordinates, such as support, understanding and encouragement. Organizations also differ in the degree to which they encourage subordinates to take risks, be innovative, and overtly criticize management and discuss conflicts
Autonomy and Decision Making	Dimension related to management beliefs regarding levels of autonomy and responsibility that should be delegated in relevant and crucial decisions, therefore affecting the organizational structure, roles, policies and procedures and level of formality of theses decisions
Performance Orientation	Dimension related to the requirements and responsibilities placed on managers and employees regarding goal setting negotiations and performance assessments. Organizations also differ in the way they deal with goal conflicts and trade-offs (effectiveness versus efficiency)
Reward Orientation	Dimension related to the managerial and beliefs about the need to reward fairly and competitively relative to other organizations in the industry and the degree to which rewards are linked to performance

Note. Source: Adapted from Weber and Tarba (2012) and S. Chatterjee et al. (1992)

A number of empirical studies investigating the impact of corporate culture on M&A performance have adopted this instrument to measure corporate culture differentials between the merging partners, by way of surveys, usually involving top management teams of acquired companies, aiming at assessing their perceptions regarding how different their companies and their acquirers are along the above mentioned dimensions. In supporting researchers' decisions to involve top management teams as respondents, S. Chatterjee et al. (1992), based on extant research, contend that these executives a) are selected from the ranks of individuals who best represent the value system of the majority, b) play an important role in shaping the culture of their organizations, c) their perceptions have a direct impact on the merging organizations' ability to realize the financial potential of the deal and d) are the main protagonists who will interact with key executives of the acquiring companies along all the main stages of the M&A transaction.

Following S. Chatterjee et al. (1992), a number of researchers adopted the same instrument to assess corporate culture differences (or cultural fit) and their impact on M&A performance or other dependent variables such as executive turnover , with varying research designs, models and sampling strategies, as described in a comprehensive literature review conducted by Teerikangas and Very (2006). Despite the significant growth in research with such a scope, findings still remain inconclusive and, in some cases, conflicting (Stahl, 2008; Stahl & Voigt, 2008; Teerikangas & Very, 2006, 2012; Weber, Tarba, & Reichel, 2011), a topic that will be discussed with more details in **section 2.4**.

2.1.1.4 Industry Membership and Corporate Culture

In her effort to study the effects of industry membership in the shaping of what she dubbed "industry mindsets" – i.e. a broad set of values, beliefs and assumptions encompassing the cultural knowledge widely shared among organizational members within industries – Margaret Phillips (1994) pointed out five theoretical supports for the existence of such mindsets, originating in the fields of institutional theory, industrial economics, marketing, organizational behavior and strategic management.

Gordon (1991), viewing culture according to the cognitive and the echological-adaptationist schools of thought (Allaire & Firsirotu, 1984), resort to other two theoretical antecedents to the formation of corporate culture: the resource dependence theory (Pfeffer & Salancik, 1978) and the population ecology model (Aldrich, 1979; Hannan & Freeman, 1989).

Institutional theorists posit that coercive, mimetic and normative forces lead to what DiMaggio and Powell (1983) called *institutional isomorphism*, a process through which organizations within a *population* (or *organizational fields*) are forced to resemble other units that face the same set of environmental conditions. Over time, they become more and more alike in terms of mindsets, organizational structures, managerial processes and behaviors. In a related analysis, J. W. Meyer and Scott (1991) introduced the concept of *societal sectors* – defined as a collection of organizations operating in the same domain, as identified by the similarity of their product, services and functions, together with those organizations that critically influence the performance of focal organizations, such as major suppliers, customers, regulators, funding sources and competitors – to advance the idea that *technical* and *institutional environments* have relevant implications regarding how organizations structure themselves, monitor their operations and make decisions. Similar ideas behind the concepts of *interorganizational networks* (Benson, 1975) and *industry systems* (Hirsch, 1972) have been proposed by other institutionalist scholars.

Industrial economists linked to the study of processes involving technological changes have advocated the concept of *technological paradigms*[21], to advance the hypothesis that economic, institutional and social factors operate as a *selective device*s on which technological paths should be chosen, within a large set of *possibilities* of development (Dosi, 1982).

Homogeneity within industries is also observed in the marketing function, particularly in industries subject to strong globalization forces. Although recognizing that standardization of marketing programs and processes is, in general, difficult and impractical, Jain (1989) contends that it can be feasible in certain circumstances where the economic, cultural, and institutional distances between home and host countries are small, when worldwide customers (not countries) are the basis of identifying the segments to serve, and the extent to which competition intensity among global players are similar across regional markets. Characteristics of the offered products (whether industrial or consumer) and other organizational aspects involving parent and subsidiaries also have impact on the feasibility of standardization strategies (Jain, 1989).

[21] Dosi (1982), in an analogy to the Kuhnian concept of *scientific paradigm*, defines *technological paradigm* as a "model" and a "pattern" of solution of *selected* technological problems, based on *selected* principles derived from natural sciences and on *selected* material technologies (italics and quotes in original). According to him, referring to the Kuhnian concept of "normal science", *technological trajectory* (i.e., technical progress) is a pattern of "normal" problem solving activity in the context of a technological paradigm.

Organizational behaviorists – supported by organizational theories that explore the organization-environment relationships – posit that assumptions on some industry characteristics, such as the competitive context, customer demands and the requirements posed by societies in general, shape the corporate cultures of organizations that compete within an industry (Gordon, 1991).

Strategic management researchers, particularly those linked to the industrial organization tradition, also contend that industry specificities matter when it comes to their impact on the mindsets of executives in charge of the formulation and implement of competitive strategies.

The concept of *strategic groups* – defined as group of firms in an industry following the same or a similar strategy along the strategic dimensions[22] – advanced by Porter (1980) suggests that shared assumptions upon those dimensions are the basis of competitive grouping of firms and the erection of mobility barriers between them as well. See Phillips (1994) for other examples in the strategy literature where researchers focus on commonly held industry-based mindsets (i.e., organizational cultures) that shape strategic decision making processes made by individuals in member firms, such as how *shared strategic frames* develop within industries to deal with uncertainty (Huff, 1982; Rumelt, 1979).

Evidence that industry shapes organizational culture have been explored in empirical studies, usually by way of surveys involving key informants in each organization. Reynolds (1986), for example, found that individuals in different organizational positions as well as in different industries have quite distinct perceptions on work contexts. Using a sample of 15 firms competing in four industries within the services sector, Chatman and Jehn (1994) came to similar conclusions and found that stable organizational culture dimensions existed and varied more across industries than within them, a finding consistent with that achieved by Phillips (1994) in her analysis of the fine arts museums and the California winery industries.

[22] Porter (1980, pp. 127-129) identifies 13 strategic dimensions along which possible differences in strategic options are captured: degree of specialization, brand identification, push vs pull, channel selection, product quality, technological leadership, vertical integration, cost position, service, price policy, financial and operating leverage, relationship with parent company and relationship to home and host governments.

2.1.1.5 Measuring National Cultural Distance

In 1988 Bruce Kogut, then Visiting Professor of the Institute of International Business at the Stockholm School of Economics, and Harbir Singh, from Wharton School of Business, authored a paper published in the Journal of International Business Studies in which their central proposition was to assess the effect of national culture on the choice of entry mode (Kogut & Singh, 1988). Under their assumption that differences in cultures among home and host countries influence the perception of managers regarding the costs and uncertainty of alternative modes of entry into foreign markets, they proposed a multinomial model to assess the impact of cultural distance between the US and the foreign investors' home countries (the independent variable) on the likelihood of a certain entry mode (acquisition, joint venture or greenfield investment) being chosen, controlling for other effects.

Kogut and Singh (1988) proposed an ingenious (by then) procedure to measure the cultural difference index (*CD*), to be used as an independent variable in their model, based on the deviation from each of Hofstede's four national cultural dimensions scales (see **section 2.1.1.2**): power distance, uncertainty avoidance, masculinity and individualism. Mathematically, their proposed CD index is determined as follows:

$$CD_{jk} = \sum_{i=1}^{4} \frac{1}{4} \left[\frac{\left(I_{ij} - I_{ik} \right)^2}{V_i} \right] \qquad (1)$$

where CD_{jk} is the cultural distance between countries *j* and *k*, I_{ij} is the index for the i^{th} cultural dimension for the j^{th} country, I_{ik} is the index for the i^{th} cultural dimension for the k^{th} country and V_i is the variance for the i^{th} cultural dimension. Their alleged decision to impose weights based on index variance was to avoid undesirable correlations between measurement errors and other independent variables.

Notwithstanding the criticisms that such proposal generated, regarding the underlying theoretical and conceptual properties of the *CD* index (Shenkar, 2001; Yeganeh & Su, 2006), Kogut and Singh's study turned out to be one of the most referenced papers in the IB literature and their index gained a widespread acceptance amongst researchers, given its inherent convenience to be employed in statistical models.

Apart from extensions of Kogut and Singh's work (Slangen & Hennart, 2008), this index has been used in a variety of other theoretical inquiries such as the impact of national culture differences on the longevity of foreign entries (Barkema, Bell, & Pennings, 1996), on motivations behind joint venture dissolutions (Park & Ungson, 1997), on preferences for licensing over foreign direct investments (Shane, 1992), whether or not culturally related international diversification have positive effect on firm performance (Gomez-Mejia & Palich, 1997), and in the massive academic production – of which this thesis is another example – investigating the effects of national cultural distance on M&A performance, either based upon the Hofstede's cultural dimensions (Dakessian & Feldmann, 2013; Morosini, Shane, & Singh, 1998; Slangen, 2006; Weber et al., 1996) or on the cultural dimensions measured by the GLOBE project[23] using an adapted version of equation (1), such as in the studies of Reus and Lamont (2009), Vaara, Sarala, Stahl, and Björkman (2012), and Dikova and Sahib (2013).

Taking into account the mounting criticisms directed to Hofstede's cultural dimensions, comparisons of the effects of alternative measurements of national cultural differences on M&A announcements made by Multilatinas will be tested in the econometric models developed in **chapter 4**.

2.1.2 Psychic Distance

Cultural distance and psychic distance are two constructs widely used in the IB literature. As both concepts have been used interchangeably with no distinction between them, a significant time and effort have been devoted by IB researchers in conceptualizing them and stressing their differences. Based on findings of these studies, both constructs are conceptually different and capture different but overlapping phenomena (Brewer, 2007; Dow & Karunaratna, 2006; Evans, Treadgold, & Mavondo, 2000b; Håkanson & Ambos, 2010; M. Smith, Dowling, & Rose, 2011; Sousa & Bradley, 2006; Vahlne & Nordström, 1992).

Long before the concept of psychic distance gained prominence within the management-oriented IB literature and began to be developed as a construct – particularly by researchers at

[23] See **section 2.1.1.2** for a detailed analysis of the national cultural dimensions proposed by the GLOBE project.

the University of Uppsala in the 1970s, who defined it as "the sum of factors preventing the flow of information to and from the market, such as differences in language, education, business practices, culture and industrial development" (Johanson & Vahlne, 1977) – back in the 1950s, Beckerman (1956) coined the term "psychic distance" in a well known paper where he addressed the issue of distance in determining the pattern of Western European trade, as a "subjectively perceived distance to a foreign country".

Whereas cultural distance is a collective phenomenon related to national differences in shared norms and values (Drogendijk & Slangen, 2006; Hofstede, 1980, 1997), psychic distance is conceptualized at the individual level and is usually conceived of as a perceptual and cognitive phenomenon at the individual level, associated not only with national cultural differences between two countries, but also with other factors that can hamper the flow of information between these countries and/or affect the capability of individuals to interpret these information, such as dominant religion, business language, form of government, economic development and levels of emigration (Boyacigiller, 1990). In more recent literature, researchers have added other explanatory variables such as language, business practices, political and legal systems, education, economic development, marketing infrastructure and industry structure (Evans, Treadgold, & Mavondo, 2000a).

Notwithstanding the fact that the "individual" is the appropriate unit of analysis when measuring psychic distance, **national measures of psychic distance** should be understood as the **average** psychic distance held by a country's business community to a particular foreign market (Dow & Karunaratna, 2006; Håkanson & Ambos, 2010; M. Smith et al., 2011).

In an attempt to build a comprehensive multidimensional instrument to measure psychic distance stimuli, Dow and Karunaratna (2006) develop and test a broad selection of indicators, such as differences in language, religion, and political systems – besides the traditional measurements of Hofstede's cultural dimensions – which form the context within which managers' perceptions of psychic distance are formed and, therefore, may influence international decisions regarding export market selection. Using trade flows data among a set of 38 countries as a dependent variable, they showed that the majority of the proposed indicators proved to be statistically significant predictors of trade flows, whereas a composite measure based on Hofstede's cultural dimensions turned out to be not significant[24].

Håkanson and Ambos (2010), addressing the fact that IB literature largely remains silent as to the antecedents of the psychic distance construct, investigate the potential drivers of the perception of this construct. Building on data from 25 of the world's largest economies, they conclude that these perceptions are influenced by a range of cultural, geographic, political and economic factors. Among the predictor variables, geographic distance accounts for the largest share of explained variance, suggesting that physical distance should be given a more prominent role to empirically investigating international business decisions – such as decisions on foreign market and target country selections and entry modes among others – for which psychic distance may be relevant. Their findings also suggest that culture distance as measured by the index proposed by Kogut and Singh (1988) is a poor predictor of such perceptions, if used in isolation.

One of the key managerial implication of Håkanson and Ambos' paper – particularly when managers are interested in assessing and comparing the attractiveness of individual markets – is the fact that perceived psychic distance may be relatively stable over time, a contention supported by the statistically significant impact of the absolute geographical distance, the common official languages as well as the continued significance of post-war east-west political rivalry (Håkanson & Ambos, 2010).

2.1.3 Institutional Distance

Alternative constructs to national culture differences and their effects on organizational and human behavior have drawn on institutional theory (Scott, 1995) under the argument that the institutional characteristics of a country reflect this country's environment as they capture various aspects including cultural norms, social knowledge, rules, regulations and others. Researchers in this theoretical stream posit that reducing national environments to culture may be a case of constrained simplification, as there are other aspects of national

[24] However, in an alternative model using the trade intensity index proposed by Srivastava and Green (1986) as a dependent variable, Hofstede's composite index proved to be a significant predictor.

environments that significantly affect organizational behavior, such as the economic and political systems (Kostova, 1997).

According to Scott (1995), institutional environments are comprised by three main types of institutions, or “pillars”: **regulatory**, **cognitive** and **normative**. The *regulatory* component reflects the existing laws and rules in a particular national environment which promote certain types of behaviors and restrict others. The *cognitive* component reflects the cognitive structures and social knowledge shared by the people in a given country. They affect individual behavior as they shape the cognitive programs (schemas, frames and inferential sets) which people use when selecting and interpreting information. The *normative* component consists of social norms, values, beliefs and assumptions about human nature and behavior that are socially shared and are carried by individuals.

Based upon the work of institutional theorists (J. W. Meyer & Rowan, 1977; Scott, 1995; Zucker, 1991) and using exploratory and confirmatory factor analysis, Kostova (1997) operationalize the concept of **country institutional profile** as a 3-factor scale – each one corresponding to the three dimensions of institutionalized environments (regulative, normative and cognitive) – anchored in a specific managerial context of quality management[25]. She concludes that the measures for the ten countries in the sample are significantly different and that for those countries that fall into the developed countries groups measures are consistently higher than those that cluster into the developing countries. In a sequel paper, Kostova (1999) uses the concept of country institutional profile and the organizational and relational contexts to formulate a series of propositions regarding the transnational transfer of strategic organizational practices, whereas Xu and Shenkar (2002) decompose the institutional distance (or institutional profile) between the host and home countries into distances on the regulative, normative and cognitive dimensions of institutions and match these with firm-level attributes to formulate propositions concerning host country selection and foreign market entry strategies.

In order to capture the rich diversity of ways in which countries differ, scholars in IB field have been devoted to conceptualize, measure and examine the influence of cross-national

[25] Institutional theorists argue that institutions are issue-specific and, therefore, institutional characteristics of a country should be evaluated in regard to a specific phenomenon rather than in general terms (Kostova, 1997).

distance, relying on a broad theoretical source of institutional analysis. As MNEs operate in distinct business environments, make decisions regarding the location of their foreign operations and develop resources and capabilities to adapt to the diversity of institutions across countries, the importance of institutions have become widely recognized for understanding business strategy and performance across national borders (Berry, Guillen, & Zhou, 2010; Bevan, Estrin, & Meyer, 2004; Jackson & Deeg, 2008; Mudambi & Navarra, 2002).

The traditional neoclassic economic theory posits that the competitive advantage of a given location can be assessed by its macroeconomic conditions. Economic factors such as the size and growth of the market, the availability of labor and its cost, the inflation level, the degree of foreign indebtedness and the state of balance of payments is considered to be the major indicators of location profitability for international investment and trade. Variations in the institutional structures across countries is either completely disregarded or treated only as unimportant secondary factors. Leaving aside the problem of contract enforcement and property rights, if there were a complete set of markets, relative prices could be formally regarded as being a sufficient instrument for summarizing the data needed for a society to efficiently achieve the social optimum. (Mudambi & Navarra, 2002).

As the seminal research of North (1990) and O. E. Williamson (1985) have stressed, actual markets are far from complete. Institutions, therefore, matter. Individual agents need other ways to gain useful information for making choices and decisions. Just as markets transmit information about the economic environment in the synthetic form of relative prices, other institutions – either formal, such as the political regime, the national structure of policy making, the judicial system, the structure of national factor markets, the terms of access to international factors of production, or informal socio-cultural factors such as norms, customs, mores and religion – transmit information in other forms, and the concern of institutional economics is whether institutions perform this task well (Mudambi & Navarra, 2002).

The importance of institutions in the IB literature and research derives from the fact that institutions represent the major immobile factors in a globalized market. In an international environment characterized by a staggering mobility of firms and resources, legal, political and administrative systems tend to be the internationally immobile framework whose costs determine the international attractiveness of a given location. Institutions affect the relative transaction and coordination costs of production and innovation, not to mention the competition between institutional systems as some of them proved to be successful in promoting growth, competition and openness, while others have lost out and failed to achieve those outcomes (Mudambi & Navarra, 2002).

In his seminal work, North (1990) pointed out that complex institutional structures have been devised over time to constrain actions of social agents and reduce uncertainty of social interaction. These institutions include formal contracts and guarantees, bankruptcy laws, defined and effectively protected property rights, trade marks and corporate organizations. The institutions that a given society develops are crucial instruments for long-distance trade, credit and other inter-temporal and inter-spatial markets that are not self-enforcing. These institutions facilitate economic growth, international investments and trade by a) reducing opportunism in transactions among people unknown to one another and b) by providing a template for multilateral reputation creation, supported by frameworks of credible commitment, enforcement and coordination (Mudambi & Navarra, 2002).

Cross-national variation in the institutional environment adds uncertainty to new foreign operations that, in turn, raises the hurdle rate of return and discourages entry. Markets that are similar in political structure, factor market structure and culture pose less uncertainty, relatively lower costs of entry and, therefore, lower hurdle rates return. Investing firms are more likely to enter countries where the future policy regime is relatively ease to predict and are less likely to enter countries that are culturally distant and have dissimilar organizational structures. Another source of uncertainty is the instability in the policy decision-making process in countries with unstable regimes, in particular on the impacts of political hazards and opportunism[26] that MNEs face due to government's commitments to given structures of taxation and/or regulation or even a set of property rights (Mudambi & Navarra, 2002).

Grounding on institutional theories of national business, governance and innovation systems, Berry et al. (2010) present their conceptual definitions, analysis and choice of empirical cross-national distance. Using the Mahalanobis approach to address the issue of the relatively high

[26] Mudambi and Navarra (2002) distinguish two types of opportunism: the first is related to the fact that in countries where governments' commitments are easily changed, these governments are likely to behave in an opportunistic manner for their own benefits. The second occurs when the host country partner (or a competitor) may opportunistically approach the government with request to take actions in order to favor them at the expense of the MNE.

correlations between the indicator variables and the different scales on which they are measured, nine dimensions of distance have been identified by the authors: economic, financial, political, administrative, cultural, demographic, knowledge, connectedness, and geographic. The models have been empirically tested in four managerial contexts experienced by American MNEs: initial and sequential entry decisions of firms, the choice of manufacturing versus distribution subsidiaries, the choice between high and low income host countries, and the choices of high versus low R&D intensive firms as they expand in foreign markets. Authors found that a) cultural distance (combining Hofdtede's dimensions either by Euclidean and Mahalanobis methods) dissuades firms from investing abroad, b) culture variables in conjunction with other distance dimensions have differential effects on the propensity of firms to invest in foreign markets, c) these differences in propensity are context-specific. These findings make explicit the limitations of using a distance variable that is based exclusively on a cultural dimension, and stress the importance of considering multiple (institutionally-based) dimensions of distance when analyzing the influence of cross-national distance across a range of corporate decision making contexts (Berry et al., 2010).

Arregle, Miller, Hitt, and Beamish (2013) contend that institutions matter, particularly the formal institutional structures that, through written laws, regulations, policies and their enforcement measures, prescribe the actions and behaviors of people, systems and organizations. These authors examine the institutional effects in the context of semi globalization by considering the influences of three formal institutions (regulatory control, political democracy and capital investments) of countries and geographic regions on MNEs' location choices of internationalization. Using a sample of 1,076 Japanese MNEs that have set up 3,394 subsidiaries in 45 different countries over the period 1996-2001, they conclude that the degree of internationalization into a country is influenced by both country and regional institutional environments and that a semi globalization perspective provides a better explanatory power than does the country level perspective.

The **regulatory environment** provides oversight and direction for the conduct of organizations. As an institution of potential coercive force, it influences firm actions through rule-setting monitoring and sanctions, thereby reducing uncertainty for the collective. Regulations also have the power to create and enforce property rights protection. Other attributes of the regulatory environment – such as the level of enforcement or openness of law – might also facilitate market transactions by reducing uncertainty (Arregle et al., 2013).

As an institution, **political democracy** establishes the level of checks and balances in government and reflects an ideology of how people and organizations should be governed. As far as political regimes can create significant uncertainty and potential costs, they can significantly affect the MNE operations. Political democracy also reflects the discretion of government over its citizens, prescribing how laws and rules are created, defining the society's level of human and political rights for participation in rule-setting and freedom of expression (Arregle et al., 2013)

Economic institutions serve as a formal constraint that reduces uncertainty and information asymmetries between borrowers and lenders in transactions and establishes rules in the market economy. They are location specific and can facilitate well as constrain the behavior of markets. Economic institutions also influence the availability of financial resources and potential consumption, production and cost of living in the country, thus having a strong impact on FDIs (Arregle et al., 2013).

Holmes, Miller, Hitt, and Salmador (2013) examine the influence of informal institutions on formal institutions and the effects of formal institutions on IFDIs. Integrating prior research from organizational institutionalism and institutional economics the authors posit that the country's informal institutions – in the form of the cultural dimensions of collectivism and future orientation – shape the country's formal institutions (regulatory, political and economic). In turn, each of the three formal institutions affects the country's level of IFDI differently.

Using an exploratory factor analysis as a statistical method, applied on a sample of 50 countries, Holmes et al. (2013) conclude that a) in-group collectivism is positively related to the control that regulatory institutions exercise over the activities, b) in-group collectivism has a negative and a statically significant relationship with political democracy, c) the relationship between future orientation and capital availability is positive and significant, but not with market liquidity, d) regulatory control is negatively (and significantly) associated with a country's IFDI level, e) the relationship between political democracy and IFDI levels is only marginally negative, which turned out to be an unexpected outcome, and f) the hypothesis that economic institutions promoting capital investments by domestic entities are negatively related to IFDI is partially supported, as capital availability is negatively (and significantly) associated with IFDI but market liquidity has no significant impact on this variable.

2.2 Understanding the M&A Phenomena

2.2.1 Why Do Firms Acquire?

Extant literature reviews on firms' acquisition behavior (Haleblian et al., 2009; Hitt et al., 2012) are practically convergent about the determinants of M&A activity. As mentioned before, though the goal of all M&A transaction is to create value to main stakeholders, the reality is that many destroy value due to the problems that managers are unable to solve, as will be discussed below.

Although scholars have revealed a number of antecedents that appear to elicit acquisition activity, much of the research on M&A has been developed in independent theoretical domains (corporate finance, strategic management and industrial organization), which has resulted in an absence of a unified theoretical view of why firms engage in M&A activities.

According to this literature, the commonly identified acquisition antecedents (or motivation) fall into four broad categories: value creation, managerial self-interest (which usually leads to value destruction), environmental factors and firm-specific characteristics (Haleblian et al., 2009).

Value Creation – Value is created in very specific contexts. The first is when the quest for **market power** through horizontal M&A transactions reduce the competition intensity in an industry, resulting in value appropriation from customers. Empirical research exploring this theme is mainly conducted in the finance literature.

The second is when the combination of acquiring and target firms reaps economic benefits stemming from **efficiency gains**, mainly through productivity improvements and/or economies of scale.

The third happens in **resource redeployment** strategies through which horizontal M&As lead to knowledge and capability transfers to generate economies of scope. Recent empirical research, most of them supported by the theoretical micro foundations of the resource-based and knowledge-based views of firm, have found that acquiring firms leveraged the innovation-oriented resources and capabilities of target firms, either by integrating them into the acquiring firm, or by exploiting those resources and capabilities by the acquired firms themselves as stand alone entities.

The fourth occurs when acquisitions are used to **discipline ineffective and overcompensated top executive teams**, reflecting the full playing out of the market for corporate control, under the main assumption that firms with poor corporate governance mechanisms have low market values and are taken over by higher valued bidders. Acquiring firm's main intention is a corporate turnaround, with a clear intention of replacing the target's management team. This phenomenon of executive departure has also been addressed in other research streams under the lens of the social identity theory – as discussed in **section 2.3.3** - which explores the consequences of cultural distances between the merging firms.

Managerial self-interest – Some empirical research have explored the cases where managers attempt (and sometimes are successful) to maximize their own self interest at the expense of shareholders', particularly when governance mechanisms are weak (Mueller & Yurtoglu, 2007). According to Haleblian et al. (2009) literature review, managers have, in some circumstances, greater discretionary power to decide on M&A matters at their convenience. Evidence that a) there is important links between top management team **compensation** and acquisitive behavior, b) clear manifestations of **managerial hubris** – or exaggerated self-confidence, leading to the payment of never-returning premium prices for the acquired firms – and c) the presence of **target defense tactics** that are created to enhance managerial self-interest at the expense of shareholders – such as the existence of illiquid and non-vested stock that can confer windfall profits to target CEOs and other C-level executives in case of an exchange of control – have been reported in past empirical research, mainly from the corporate finance field, as cases of value-destroying M&A transactions. As Haleblian et al. (2009) properly noted, these anomalies may lead to other market discipline-based acquisitions, which explains why the intensity of M&A activity may persist for quite a long time.

Environmental factors – a research question mainly investigated by strategic management scholars is whether a fit between environment and firm strategy stimulates acquisition behavior. For instance, transaction cost theory suggests that for idiosyncratic assets full control modes of entry will be preferred, which explains why, in the presence of **environmental uncertainty**, firms tend to prefer acquisitions over licensing agreements (Brouthers, Brouthers, & Werner, 2000). On the other hand, finance scholars have explored the effect of **regulatory actions** – such as external governance structures, accounting standards and shareholder protection mechanisms, to mention a few – on the level of M&A activity. An example is the study of Rossi and Volpin (2004) on the determinants of mergers and acquisitions around the world. Their major finding is that the volume of M&A activity is significantly larger in countries with better accounting standards and stronger shareholder protection.

Sociologists and organizational theorists also brought their own view on the determinants of M&A activity. Drawing on imitation theory, Haunschild (1993) examines the evidence for the influence of interorganizational imitation on M&A activity, arguing that firm managers are exposed to the acquisition activities of other firms – which serve as models to be imitated – when they sit on those firms' boards. Looking at 1980's merger wave as a unit of analysis, Stearns and Allan (1996) posit that fringe players – encouraged by a liberal state combined with increased access to capital markets – initiate the innovations that enable them to execute mergers. A merger wave is triggered when theses actors become increasingly successful and their innovations are imitated by other players.

A number of researchers built on the sociology of networks (Granovetter, 1973) to examine the importance of network ties as a driver of acquisitive behavior. Westphal, Seidel, and Stewart (2001), for instance, found that firms that have board network ties to firms in other industries that imitate their competitors' strategy are likely to imitate their own business strategies, acquisition activity and compensation policies as well, a phenomenon that they dubbed "second order imitation" which is not visible to the extant interorganizational imitation perspective.

Resource dependence theory (Pfeffer, 1972; Pfeffer & Salancik, 1978) also contributed with interesting insights on predicting and explaining M&A activity, according to which mergers and acquisitions are a response to the constraints imposed by organizational interdependence. When organizations depend on other organizations for resources, such constraints can be managed through mergers. Following this theoretical stream, Casciaro and Piskorski (2005), using a sample of mergers and acquisitions among public US companies in the 1985-2000 period, extended Pfeffer's contribution by contending that mutual dependence is a key driver of M&A activity, but power imbalances between the merging partners act as an obstacle to their completion.

Firm-specific characteristics – M&A researchers have argued that acquisition experience and firm's strategy and competitive position can motivate firms to engage in M&A activity. According to extant empirical studies, acquisition experience, in general, has a positive relationship with the likelihood of subsequent M&A transactions, particularly when this experience has generated attractive returns. Related research has also found that experiential learning a) encourage repetitive behavior, and b) that in addition to firms' own experience, vicarious learning (i.e., learning from others) also tends to influence acquisitive behavior and the location choice of their investments. Regarding firms' strategic and competitive position, although limited knowledge exists from past research, there is some evidence that, in certain circumstances, they can affect the preferred entry mode in foreign markets (Haleblian et al., 2009).

2.2.2 Why Do Firms Engage in Cross-Border Acquisitions?

A firm can undertake FDI in a host country in either two ways: greenfield investment in a new facility or acquiring or merging with an existing local firm[27]. The local firm may be privately or state owned: privatizations involving foreign investors are considered as cross-border M&As, which entails a change in the control of the merged or acquired firm. In a cross-border merger the assets and operations of the two firms belonging to different countries are combined to establish a new legal entity. In a cross-border acquisition, the control of assets and operations is transferred from a local to a foreign firm (UNCTAD, 2000).

CBAs can be classified as three types. **Horizontal M&As** occur between competing firms in the same industry. They have grown rapidly over the last decades in global restructuring of many industries in response to technological change and liberalization. The merging firms consolidate their resources aiming at achieving synergies and often greater power. Typical

[27] In addition to these two entry modes, the concept of "brownfield investment" can be found in the literature. This corresponds to a situation where the investor – after acquiring an existing firm – replaces plant and equipment, labor and product lines, or engages in a major capacity expansion program of existing facilities.

industries in which such transactions occur are pharmaceuticals, automobiles, oil and gas and, increasingly many service industries. **Vertical M&As** occur between firms in client-supplier relationships. Typically they seek to reduce uncertainties and transaction costs as regards forward and backward linkages in the production chain and to benefit from economies of scope. Good examples are M&As between parts and components makers and their clients, such as final electronics or automobile manufacturers. **Conglomerate M&As** can occur between firms in unrelated industries through which they seek to diversify risk and capture economies of scope (UNCTAD, 2000).

Although CBAs represent one mode of FDI entry into a foreign location, the received literature on IB can partly explain this phenomenon. For example the OLI paradigm does not distinguish between different modes of entry, as it was conceived primarily in reference to greenfield FDI. Two factors stand out as being particularly important in explaining why firms prefer to grow via M&A rather than through organic options: speed and access to proprietary assets. Speed is crucial, for example, when time to market is vital or as strategy to a latecomer to quickly catch up. Access to strategic assets – such as R&D or technical capabilities, patents, brand names, distribution channels, to name a few – become critical as they are not available elsewhere in the market and they take time to develop (UNCTAD, 2000).

These two main factors interact with other driving forces that play out differently depending upon the host countries and industries and which often affect the decision to undertake M&A transactions. They are: the search for new markets, access to new and/or complementary resources and capabilities, increased market power and dominance, efficiency gains through synergies, greater size, diversification, spreading market risks, financial and tax motivations and behavioral motivations. While all these factors are important to consider when explaining why firms undertake CBAs, it is seldom only one factor that is decisive (Cantwell & Santangelo, 2002; Hitt, Ireland, & Hoskisson, 2007; UNCTAD, 2000).

Search for new markets and/or increased market power and dominance are recurrent strategic issues for firms. Through M&As, firms can quickly access new market opportunities and develop critical mass without adding new capacity to an industry. Particularly when the need for knowledge about local conditions increases turns out to be crucial, immediate access to local network of suppliers, clients and skills can be obtained through the takeover of an existing company. Furthermore, in some oligopolistic industries, the pursuit of market power[28] – which, in some contexts, can lead to anti-competitive practices, for example, reshaping the market structure by restraining competition – and increase the possibilities to erect entry barriers can be achieved mainly through horizontal mergers (Cantwell & Santangelo, 2002; UNCTAD, 2000).

Firms trying to enter international markets often face entry barriers, particularly in industries where incumbents spend more on advertising, command a higher reputation premium over foreign entrants, or sell a large proportion of their output to individual end-users instead of to their business customers (Chang & Rosenzweig, 2001).

Economic value creation by capturing synergies is probably the most cited justification for M&As. Several mechanisms are known through which these synergies are captured, be they *static* – for example, through cost reductions or revenue enhancements at a given point in time and usually with sort-term impacts on profitability – or *dynamic*, such as the matching of complementary resources or skills to improve a firm's innovatory capabilities with long-term positive effects on sales, market share and profits. Whereas *static* synergies are important in industries characterized by increased competitive pressure, falling prices and excess capacity, *dynamic* synergies may be crucial in knowledge-driven industries experiencing fast technological changes, such as information technology and pharmaceuticals (UNCTAD, 2000).

Economies of scope are other kind of mechanisms through which synergies are captured and they arise in situations in which common inputs can be used more efficiently when different product lines are combined, in such a way that the cost of jointly producing two different products are lower than that of producing them separately. Examples of economies of scope abound in the corporate world, the most common being found in R&D-intensive activities where formerly separate capabilities are combined making it possible to create new knowledge more efficiently and explore unforeseen opportunities (Cantwell & Santangelo, 2002).

[28] According to Hitt et al. (2007), market power exists when a firm is able to sell its goods or services above competitive levels or when the costs of its primary or support activities are below those of its competitors and is usually derived from the size of the firm and its resources and capabilities to compete in the marketplace.

Size matters in a global economy, particularly in operations requiring economies of scale, large expenditures in capital equipment and R&D and in the need to expand distribution networks as well. Furthermore, bigger firms have inherently a protective function (as they are difficult to takeover), have access to lower cost inputs (including investible funds), create those already cited financial, managerial and operational synergies that reduce their operating vulnerability and – particularly for those larger firms with multiple operations across geographical locations – have an advantage in collecting, generating and diffusing internally information and innovation (UNCTAD, 2000). M&As leading to grater corporate sizes also allow the creation of internal capital markets that have an advantage of avoiding the problems of asymmetric information, particularly when strategic decisions of cross-subsidization of operating divisions within the same firm are made (Cantwell & Santangelo, 2002).

Firms can also use M&A transactions to diversify their business portfolio, either in terms products and markets or in terms of their exposure to other countries. For example, CBAs can be structured a) on the basis that industry returns across countries may be less correlated than within a given economy, or b) to internalize economic advantages stemming from the avoidance of tariff and non-tariff barriers (UNCTAD, 2000).

Unlike the previously discussed motivations, pursuing financial and/or tax planning gains does not require managerial and strategic actions on the firms' existing business, resources and capabilities portfolios. Particularly important in portfolio-type M&As involving economies with poorly developed capital markets or in financial distress, these transactions can profit from imperfections in capital and financial markets by acquiring undervalued assets either because of differences in expected cash flows and/or due to major exchange-rate realignments (UNCTAD, 2000).

Behavioral motivations behind M&A transactions have been extensively researched in the corporate governance literature, associated with the general economic phenomenon described as the principal-agent problem (Hayward & Hambrick, 1997; Hope, Thomas, & Vyas, 2010; Maher & Andersson, 2000; Mueller & Yurtoglu, 2007; Roll, 1986). Common motivation stem from the tendency of managers to pursue their own interests – for example, implementing growth strategies described as "empire building" in order to enhance executives' power, prestige, job security and compensation – in detriment of shareholders' interests. Pressures form capital markets to achieve "double-digit" growth also lead to decision processes favoring mergers as "feasible" growth strategies when compared to organic growth options (UNCTAD, 2000).

It is worth noting that while all the above mentioned factors are important to consider when explaining why firms undertake CBAs, it is seldom only one factor that is decisive.

The acquisition behavior of firms is also greatly affected by changes in the economic and regulatory environment and, when it comes to CBAs, by the international economic and regulatory environment. The three major drivers that have taken place in the past two decades and that have facilitated and encouraged MNEs to pursue cross-border M&As are listed below: changes in technologies, changes in the policy and regulatory environment, and changes in capital markets.

Technology – The rapid pace of technological change has intensified pressures on the world technology leaders. Costs and risks of innovation have risen in most industries, as has the need to continuously incorporate new technologies and management practices. Firms thus need more efforts to maintain innovative leads, to find new areas of technological leadership, and to keep up with new knowledge and shorter product life cycles. In an environment characterized by rapid technological change and rising expenditures for risky R&D projects, many firms are compelled to enter into cross-border M&As as a way of sharing the costs of innovation and accessing new technological assets to enhance they innovating capabilities. M&As allow firms to do this quickly. Such asset-seeking FDI by MNEs is a rising form of FDI. It is likely to become more common as intangible, knowledge-based assets and access to a pool of skilled people and work teams become more important in the world economy. Technological developments also have other implications. First, by lowering transport, information-access and communication costs, technical progress has dramatically shrunk economic space, increasing competition intensity as foreign competitors may be able to deliver goods and services more cheaply, technologies are diffused more rapidly and information is more broadly available. Second, MNEs can compete more effectively with better communication across their international production systems, transferring goods and personnel across border more cheaply and break up production and management processes to locate sub-processes in different countries to minimize costs. Cross-border M&As play a critical role in allowing MNEs to set up and expand management and production systems in order to develop a portfolio of locational assets. As a result, MNEs gain more experience in digesting acquired enterprise into existing corporate systems which, in turn, makes the M&A options more attractive than before (UNCTAD, 2000).

Changes in the policy and regulatory environment – The liberalization of FDI regimes has continued apace, typically on a unilateral basis. Most countries are trying to attract direct investment, not just by removing restrictions but also through active promotion and by providing high standards of treatment, legal protection and guarantees. Examples of such changes relevant to M&As include the removal of compulsory joint venture requirements, restrictions on majority ownership and authorization requirements. The international regulatory framework has also been strengthened, especially through conclusion of bilateral investment protection and double taxation treaties. Multilateral agreements support these trends. WTO, for instance, limit the use of certain investment-related measures that affect trade, like local content and certain types of export requirements. World Bank and IMF programs encourage countries to adopt more open, transparent and welcoming regimes towards foreign investors. As FDI regimes typically apply to both greenfield investment and cross-border M&As, the latter has also facilitated by FDI policy liberalization in developed and developing countries. Some countries have instruments to screen cross-border M&As for particular purposes and may reserve the right to approve some proposal investment projects and reject or modify others to preserve important public interests. Governments have sometimes kept "golden shares" in privatized companies in order to be able to preserve essential strategic interests. Golden shares have also been used to veto undesirable control of the privatized companies (UNCTAD, 2000).

While FDI policies are being liberalized, cross-border M&As are increasingly reviewed as part of competition policy. See **Table 5** for a selected sample of Latin American countries that have adopted competition laws, as of June 2000. By and large, competition-based M&A reviews do not tend to discriminate between cross-border and domestic M&As (UNCTAD, 2000).

Table 5

Selected Latin American Countries that Have Adopted Competion Laws, as of June 2000

Country	Year
Argentina	1923, 1980, 1999
Brazil	1962, 1990, 1994, 1998
Chile	1959, 1973, 1980
Colombia	1959, 1992, 1996, 1998
Mexico	1992, 1998
Peru	1991
Venezuela	1973, 1992, 1996

Note. Source: UNCTAD (2000)

In parallel with trade liberalization and regional integration processes, there has been a widespread privatization and deregulation of activities, most notable in service industries as telecommunication and financial services. These changes have provided additional stimulus to M&As in general and cross-border in particular. Privatization programs in many developing countries have increased the availability of domestic firms for sale. In fact, the combination of privatization and deregulation has created a number of new MNEs. Previously state-owned utility companies, for example, facing new competitive pressures at home, have responded by becoming active international investors (UNCTAD, 2000).

Changes in capital markets – Cross-border M&As have been facilitated by changes in world capital markets. The liberalization of capital movements, new information technologies providing instant access to information across the globe, more active market intermediaries and new financial instruments have had a profound impact on M&A activity worldwide. Whereas the liberalization of capital markets since the mid 19980s had facilitated the growth of cross-border M&As, most developed countries have completely liberalized their capital accounts, with virtually unrestricted facilities for cross-border loans and credits, foreign currency deposits and portfolio investment. More recently, financial transactions have also been substantially liberalized in many developing countries. In addition, the increased use of cross-border M&As reflects changes in markets for corporate ownership. The number of available targets, both among publicly listed and non-listed firms is rising. Financial advisors have been expanding their operations and are more widely presenting potential deal opportunities to prospective clients. The bulk of the major cross-border deals are handled by a small number of large deal makers most of which are based in the United States. (UNCTAD, 2000).

Corporate executives are also under increased pressure from the stock market to actively participate in the global restructuring process to seize potential opportunities. New ways of financing major transactions and the liberalization of foreign equity ownerships has also facilitated M&As based on stock swaps rather than cash deals. Major M&As have also been facilitated by the rise of stock markets and ample liquidity in capital markets, which has allowed firms to raise large amounts of money through banks and debt issues. It appears also that the increasing globalization of capital markets is contributing to a certain convergence of different systems of corporate governance and financing patterns (UNCTAD, 2000).

2.2.3 Are Domestic and Cross-Border Acquisitions Alike?

Although domestic and cross-border acquisitions share some common characteristics, they also have unique and important differences and consequences to the merging partners and their employees (Shimizu, Hitt, Vaidyanath, & Pisano, 2004).

A review of the literature that compares domestic and cross-border acquisitions permits one to identify four main areas of investigation: a) differences in their potential for generating abnormal returns to acquiring and target shareholders, b) differences in some of the stages within the M&A process, c) differential impacts of cultural aspects on their expected and actual performance and d) differences in their effects on executive turnover.

Empirical research on whether domestic and cross-border acquisitions have similar or different potential for generating abnormal returns have produced mixed results. Whereas Markides and Ittner (1994) – based on sample of 276 cross-border acquisitions made by US acquirers in the period 1978-1988 and controlling for other variables – found that those acquisitions created value to acquires' shareholders, 10 years later Moeller, Schlingemann, and Stulz (2004, 2005) – using a sample of 4,430 acquisitions between 1985-1995 and controlling for several factors – concluded that cross-border acquisitions (CBAs) generated lower stock and operating performance than domestic acquisitions and that host country's high degree of restrictiveness and weak shareholder rights mechanisms had a negative and significant effects on bidder returns.

Other similar studies have been done in contexts other than US. Conn, Cosh, Guest, and Hughes (2005), based on 4,344 acquisitions made by British firms from 1984 to 1998, found that CBAs generated lower short and long term returns to British bidders' shareholders (although positive, on average) and that increase in cultural differences between UK and host countries had a negative and significant impact on returns. Bertrand and Zitouna (2008) looked at acquisitions made by French firms and found, among other interesting results, that CBAs brought about higher productivity gains to target firms located in geographies other than the Euro area. In a Japanese context, Inoue and Ings (2012) found that CBAs generated higher returns for Japanese acquirers than did the domestic deals and that targets located in emerging markets created more value than those located in the G7 countries.

Domestic and cross-border acquisitions also differ in some specific stages within the whole M&A deal such as in the due diligence phase and post merger integration stages. Cross-border acquisitions are particularly susceptible to differences in cultural (at national and corporate levels) and institutional environments between home and host countries (Angwin, 2001; Child et al., 2001).

Firms are embedded in systems of social and cultural norms that often affect the organizational processes and outcomes of cross-border M&As, typically exposed to the "double-layered acculturation" phenomena (Barkema et al., 1996), i.e., the occurrence of changes in both national and corporate cultures. Whereas differences in national cultures generally imply differences in work-related practices, in individual values, risk taking and tolerance for uncertainty (Hofstede, 1980; House et al., 2004; F. Trompenaars & Hampden-Turner, 2011), differences in corporate culture usually imply in different organizational routines, managerial practices, managerial styles and communication systems. As stressed by Weber et al. (1996),

> If we accept the premise that national culture represents a deeper layer of consciousness, it should be even more resistant to change than corporate culture. Hence we expect national culture to be a crucial factor in M&A conflict, as well as in the quest for successful integration (pp. 1218). … in international M&As, national culture differentials better predict stress, negative attitudes towards the merger, and

> actual cooperation than corporate culture differentials do. The findings also suggest, however, that both national and corporate cultures are essential inputs determining merger processes and outcomes (pp. 1225).

From the above, as far as cultural encounters are critical in cross-border acquisitions, both organizational and national cultures need to be considered in order to assess their impacts, the latter influencing the former (Olie, 1990, 1994; Schneider, 1988). According to Olie (1990), impediments in cross-border M&As were related to the way people react as culture-bearers. Three issues are in action here. First, there is resistance to new working methods and opposition to any alienation from the national character of the environment. Second, there is a perceived threat to employees' position in the company. Third, there is an issue concerning nationalism due to the differences in historical backgrounds between home and host countries. Olie (1990) posits that the integration success of CBAs depend on the degree of interaction between the two firms, the degree of integration and the extent to which the firms value their original culture. In a later paper (Olie, 1994), he examined country and firm-specific factors influencing cross-border M&As. He found that the degree of compatibility of administrative practices, management styles, organizational structures and cultures, the extent to which parties value and want to retain their organizational integrity, together contribute to explaining the difficulties encountered in the post merger integration process in an international context.

With reference to M&A implications on employees' behavior, a broad research stream has been devoted to the understanding of the effects of cultural aspects on the reaction of employees in M&A settings. Particular attention has been given to the analysis of top management teams and the impacts of their roles and actions on the final outcome of the merger or acquisition transaction.

As emphasized by Krug (2009), top management teams play an influential role in defining the firm's mission, in setting strategic objectives, in formulating and executing strategic plans and assessing organizational performance. He also asserts that, during the post merger integration stage, executive teams – aiming at minimizing the negative effects of the merger or acquisition on employee uncertainty, commitment and productivity – also have a crucial role of helping integrate the cultures of the merging partners, in communicating with employees and keeping them informed about the objectives of the mergers and how the merger will affect their future roles in the organization.

Although restricted to the US context, Krug and Nigh (2001) discuss five areas where executives' perceptions markedly differ whether they are involved in a foreign or a domestic acquisition: cultural differences, system changes in the acquired firm, acquisition negotiations, reasons for staying or leaving after the acquisition and post acquisition outcomes for the organization. In an another related research, Krug and Hegarty (2001) found that executives' perceptions of the merger announcement, interactions with the acquiring firm's top management following the merger, and long term effects of the merger significantly influenced their decision to stay or leave. Moreover, the likelihood of executives leaving the organization increased due to their created perceptions when the target company was acquired by a foreign multinational firm.

Looking at a more broad geographic scope, Very and Schweiger (2001), drawing on the learning perspective, examined similarities and differences between domestic and cross-border deals implemented by acquirers located in France, Germany, Italy and US. Their major findings are that a) typical problems in M&A activity can be grouped in three broad categories (collecting reliable information, integrating the merger partners and entering a new and unknown country; b) despite the fact that the two former categories can affect either domestic and cross-border acquisitions, survey respondents emphasized the particular challenges of cross-border acquisitions and the specific solutions sought by acquirers to overcome such challenges; c) interpreting from a learning perspective, findings revealed that the acquisition process can be understood both as a learning process, applied to the focal deal and aimed at improving the process itself. These two forms of learning, in turn, are affected by the acquirers' experience in a particular host country.

In **section 2.3,** specific aspects that are mainly related to cross-border acquisitions will be discussed, using a number perspectives and theoretical lenses. Specifically, the central theme in this section will be the role of culture in M&A.

2.2.4 Measuring M&A Performance

Notwithstanding the astounding growth in academic production on M&A research, particularly over the past 30 years, a noteworthy heterogeneity both across and within the disciplines still prevail among researchers on how M&A performance should be defined and measured (Schoenberg, 2006; Thanos & Papadakis, 2012; Zollo & Meier, 2008). Recent meta-analytical studies have attributed to this diverging views the contradictions and inconsistencies found in empirical research aiming at explaining and predicting M&A outcomes (King et al., 2004; Stahl & Voigt, 2008).

Part of the problem lies on the nature of the M&A process that requires pluralistic and integrative approaches in order to grasp all the complexities inherent in this multilevel, multidisciplinary and multistage phenomenon (Gomes, Angwin, Weber, & Tarba, 2013; Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986; Stahl & Voigt, 2008).

In this section, seven M&A performance measurement methods commonly identified in the pertinent literature will be described, along with considerations on their underlying assumptions, the contexts in which their use are appropriate, and their limitations. These seven measurement methods are: the event study method (or short term, announcement effects approach), the long term stock return measurement method, the accounting-based measurement method, the key informants' subjective (retrospective) assessments, the integration process performance, the innovation performance, and divestitures.

Cording, Christmann, and Weigelt (2010) raise relevant issues concerning precision and generalizability in the context of the acquisition performance construct and emphasize that greater precision is achieved when the selection of a performance measurement method is aligned with the theoretical domain captured by the method, recommending that researchers should "… articulate a theoretical link between the explanatory variables being studied and the theoretical domain of their selected acquisition performance measure" (Cording et al., 2010, p. 18).

2.2.4.1 Short Term, Announcement Effect Method

The effect of M&A announcements on short term wealth effects to the acquiring and target firms' shareholders – using the event study method – is the most commonly acquisition performance measurement method found in empirical research: it accounted for 40% of the papers identified in the literature review conducted by Zollo and Meier (2008) and for 34% in Thanos and Papadakis (2012) review.

First introduced by scholars in the corporate finance field (Fama, Fisher, Jensen, & Roll, 1969), the event study methodology has been employed in the analysis of investors' reactions to certain events such as earnings disclosures, M&A announcements, changes in dividend policy, changes in the regulatory environment and in several other organizational contexts such as divestitures, reorganizations, and CEO and other top management member departures. Event studies typically use a relatively short event window, extending only few days before and after the announcement of the focal event. Based upon the semi-strong form of the efficient market hypothesis (EMH), under which the market response to public information about a strategic event is quick, complete and unbiased, the method achieved a strong popularity, due to its intrinsic advantages: the ease of use, the wide accessibility of stock price data and the mitigation of other potentially confounding effects, since only those produced the focal event is captured along the event window. A second important underlying assumption is that the focal event is unanticipated by market participants, a crucial condition for abnormal returns (see definition below) accurately measure new information available to investors (Cording et al., 2010).

The central proposition of the method is the determination of the **cumulative abnormal return** to shareholders, during the event window[29]. In its most commonly used market model, cumulative abnormal returns (or usually designated by *car*) are calculated by the difference between the actual observed stock return along the event window and the expected "normal" return – based on the capital asset pricing model (CAPM) – accrued to shareholders during the same period, in case that the focal event (in this case an M&A announcement) had not happened (Campbell, Lo, & MacKinlay, 1997). The details about this method and the related mathematical formalization are presented in **section 4.1**. Positive *car* signals investors' expectations regarding the success of the announced M&A transaction, in the form of anticipated economic benefits (through increased future cash flows) to be generated by the combination of the merging firms.

Coming back to the issues raised by Cording et al. (2010) regarding precision and generalizability, the authors contend that event study method may be useful when studying the effects of explanatory variables that are publicly known at the time of the acquisition

[29] There is no consensus among researchers on what should be the proper length of the event window. However, McWilliams and Siegel (1997) stress that it should be "long enough to capture the significant effect of the event, but short enough to exclude confounding effects".

announcement, such as strategic similarity between the merging firms, acquirer acquisition reputation and profitability among others. As will be clear in the following discussions, this thesis coherently address these authors' concerns to the extent that it will investigate the effects of investors' cultural and psychic distance perceptions (which are known at the time of the announcement) on Multilatinas' shareholders' short term announcement returns.

Despite its popularity, the event study method has also its detractors. Criticisms are based on four main lines of argumentation. First, it represents an *ex-ante* and not an *ex-post* measure of performance. In fact, it does not measure actual performance but investors' expectations. Second, the method measures only financial performance, ignoring other important drivers of M&A success, such as the effectiveness of the post merger integration phase, or the retention of valuable human capital. Third, the method can only be employed when acquirers are publicly held firms, with highly liquid stocks. And last, but not least, results might be influenced by the length of the event window, the length of the estimation period (see **section 4.1** for details on definitions and procedures related to this method) and the model used, whether the market model or an alternative (Thanos & Papadakis, 2012).

2.2.4.2 Long Term Stock Return Measurement Method

In contrast with the event study method, the long term stock return method extends the event window to one or more years to capture additional information that becomes available to investors, allowing more accurate estimates of future cash flows as uncertainty is reduced. This additional information becomes crucial to the investors in assessing the effectiveness of the integration process, insofar as economic value is fundamentally created during this stage of the merger (Haspeslagh & Jemison, 1991).

Proponents of the method come mainly from the corporate finance field, with first papers dating back to mid 1970s. It was only with the publication of the seminal work conducted by Franks, Harris, and Titman (1991) that the level of model sophistication has substantially increased, particularly due to use of more refined measurement techniques and a new set of benchmarks not contemplated in previous research (Agrawal & Jaffe, 2000).

In a synthesis, the method also allows for the determination of **cumulative abnormal returns** in a similar manner to the event study method, but instead of comparing short term stock returns against the relevant market portfolio, it uses one or more other reference portfolios of highly similar firms as benchmarks against which long term returns (usually one to five tears) are determined, as indicators of value captured by the acquirers.

The long term return method also has its limitations. First, as in the case of event studies, it cannot assess the impact of an acquisition if acquirers and/or targets are private firms. Second, results may be influenced by the chosen period of the event window and the reference portfolio. Third, relative to event studies, long term stock performance may be susceptible to influences from factors unrelated to the focal acquisition, such as competitor's strategic moves (such as new product introductions) that can occur during the event window. Fourth, due to methodological issues, critics argue that the method is imprecise and has limited power in the statistical tests, which often indicate abnormal performance when none is present (Barber & Lyon, 1997; Cording et al., 2010; Kothari & Warner, 1997; Thanos & Papadakis, 2012)[30]. Fifth, structuring reference portfolios for emerging markets firms can be a challenging task by the very dearth of comparable firms. Taking some Multilatinas for example (Vale and Petrobras to mention a few Brazilians), it is virtually impossible to compare their returns with the performance of a portfolio of similar companies.

Returning to Cording et al. (2010) arguments regarding the precision versus generalizability issue in the context of the acquisition performance construct, they suggest that the long term stock return method may be appropriate for publicly known integration events such as top management team turnover, resource divestitures and other restructuring actions.

2.2.4.3 Accounting-Based Measurement Method

Researchers using this method usually compare the average post-M&A accounting-based returns for the acquiring or the combined entity with the weighted pre-M&A returns of the acquiring and target firms. Results robustness are improved by subtracting from the above calculation the pre and post mean average industry profitability, excluding the year in which the focal acquisition took place (Thanos & Papadakis, 2012). Under the fundamental

[30] As argued by Dikova and Sahib (2013), another drawback of long term performance measures is that some acquirers may have conducted multiple acquisitions in the intervening time span between the focal acquisition and the end of the sample period, thus making it difficult to attribute performance effects to this focal transaction.

assumption that substantial value is either captured or destroyed during the post merger integration stage (Haspeslagh & Jemison, 1991), these measures have the advantage of representing the actual returns earned by the merging partners.

Typically three accounting-based return concepts are found in empirical M&A research: return on equity (ROE)[31], return on assets (ROA)[32] and return on sales (ROS)[33]. In general, researchers tend to prefer ROA against ROE or ROS on the ground that it is less influenced by the possibility of upward or downward bias caused by changes in financial leverage or bargaining power resulting from the merger (Meeks & Meeks, 1981). Growth in sales have also been used in some contexts, particularly when assessing the performance of cross-border acquisitions due to the fact that it is less affected by national accounting standards (Morosini et al., 1998; Stahl & Voigt, 2008).

Whereas event studies implicitly assume that the effectiveness of the integration can be predicted from information captured in stock prices at the date of the acquisition announcement, accounting methods also seek to reduce the noise stemming from this assumption, by capturing the performance implications of the integration, as new information is revealed during this stage (Cording et al., 2010).

Similarly to the previous measurement methods, accounting-based methods also have their limitations. First, by considering long time spans, factors other than the focal acquisition may influence the measure. Second, they are narrow in their orientation as only past financial performance is measured, providing no indication of future potential. Third, they should be thoughtfully adopted in cross-border acquisition settings, as far as differences in national accounting standards may distort pre and post merger comparisons and introduce undesired biases in the performance assessment analysis. Fourth, even in same-country studies, intra-industry comparisons may be distorted due to the differences in the accounting treatment of

[31] Commonly defined as net income divided by the book value of shareholders' equity.

[32] Commonly defined as net income (or, alternatively, earnings before interest, taxes, amortization & depreciation, EBITDA) divided by the book value of total assets.

[33] Commonly defined as net income divided by sales.

the merger[34]. Fifth, managers may manipulate accounting figures and return calculations (Cording et al., 2010; Thanos & Papadakis, 2012).

Despite these limitations, Cording et al. (2010) suggest that accounting-based measurements may be useful in understanding the effects of less visible factors that can be expected to have a direct impact on the acquirers' financial performance, such as changes in employee morale, cultural differences between the merging firms, or the overall effectiveness of knowledge transfer processes.

2.2.4.4 Key Informants' Subjective Assessment

In 1984, Gregory G. Dess and Richard B. Robinson Jr. published a paper in the Strategic Management Journal (Dess & Robinson Jr, 1984) that turned out to be one of the most cited study by scholars who have implemented research designs that call for the opinions of very special kind of informants, by way of properly structured surveys. In this paper, Dess and Robinson Jr (1984) contend that, in circumstances where researchers face problems in obtaining objective measures of selected aspects of organizational performance – such as in privately-held firms or business units operated by conglomerates – subjective performance measures obtained from top management teams may become an appropriate solution to circumvent such problems.

In an M&A context, "key informants" are asked to rate the extent to which a number of goals set before the merger are met after the whole M&A transaction (including the integration process stage) is concluded. These goals usually refer to either financial (e.g., ROA, growth in sales, profits and cash flows), and/or marketing (e.g., new product development, new customer relationships, changes in market share), and/or to other strategic aspects of the business (e.g., perceived changes in overall competitive position). Typical "key informants" include the top management teams of the acquiring firms, management consultants, security analysts and academics (Thanos & Papadakis, 2012).

[34] See R. Chatterjee and Meeks (1996) and Stanton (1987) for discussions on how different accounting treatments of mergers and acquisitions affect return measurements.

Although respondent biases (mainly of the social desirability type) is not eliminated from the surveys, the main advantage of this method in an M&A context is that it takes into account the multiple motives underlying the M&A transaction, besides being capable of capturing the impact of fine-grained privately known variables that may take a substantial amount of time to be publicly explicit, such as new capability development (Cording et al., 2010; Thanos & Papadakis, 2012; Zollo & Meier, 2008).

A number of researchers have resorted to key informants in studies that typically addressed research questions related to the dimensionality of M&A performance constructs, reinforcing the notion that the different acquisition performance measurement methods detailed in this section indeed capture different aspects of the M&A activity, shedding light to the rather controversial findings on M&A-performance relationship.

Zollo & Meier (2008), for example, using factor analysis and structural equation modeling techniques applied to a sample of 211 domestic and cross-border M&A projects completed by a US consulting firm's M&A advisory practice between 1994 and 2001, concluded that M&A performance is a multi-dimensional construct; there is a strong link between the integration process performance and overall long term firm performance; and short-term window event studies are not linked to any of the other performance metrics.

Another example is Schoenberg's study (2006). Using a sample of 61 cross-border acquisitions made by British firms between 1988 and 1990, he compared four alternative metrics to assess the performance of those acquisitions: *car* (cumulative abnormal returns), *ex-post* managers' assessments, divestment data and *ex-post* expert informants' assessments. His conclusion was that, with the exception of a positive relationship between managers' and expert informants' subjective assessments, no significant correlation was found between the performance data generated by the alternative metrics and also that *ex-ante* investors reaction to acquisitions announcements (measured by the *car* variable) exhibited little relation to corporate managers' *ex-post* assessments, which suggests the presence of information asymmetry between investors and the management of acquiring firms, particularly with respect to post-merger integration processes.

Papadakis and Thanos (2010) replicated Schoenberg's study (2006) in the Greek context and found that accounting-based measures are positively correlated to managers' subjective assessments and that cumulative abnormal returns are not correlated to either accounting-based measures or managers' subjective assessments.

2.2.4.5 Integration Process Performance

Since scholars began to look at the M&A activity as a process perspective (Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986), a growing body of research directed the attention to the nature and dynamics of the management processes within the post merger integration phase which, according to Haspeslagh and Jemison (1991), is when an acquisition delivers on the value creation sought by the acquiring firm.

Drawing on the longitudinal study developed by Birkinshaw, Bresman, and Håkanson (2000), researchers distinguish two rather different but interrelated integration processes: task integration and human integration (Stahl & Voigt, 2008; Thanos & Papadakis, 2012). Whereas task integration is defined as the process through which operational synergies are identified and realized, human integration comprises all managerial processes through which positive attitudes are created towards the integration among employees of acquiring and target firms. Under this school of thought, M&A success is contingent to the effective management of these two processes (Birkinshaw et al., 2000).

As far as task integration is concerned to the capture of expected synergies, research in this tradition has looked at the alignment of the operations and systems between the two organizations in sub-processes related to the transfer of capabilities, resource sharing and learning. These studies – usually based on surveys and/or key informants' subjective assessments – suggest that tasks are important in influencing the success of the integration, which in turn influences the success of an acquisition (Birkinshaw et al., 2000; Stahl & Voigt, 2008; Thanos & Papadakis, 2012).

On the other side, human integration is concerned with generating job satisfaction and shared identity among employees of the acquiring and target firms. Studies in this research stream also resort to surveys and key informants' subjective assessments of observed or perceived outcomes related to human integration and performance, such as employee turnover, cultural convergence (see **section 2.3**), employee commitment, job satisfaction and security acquisition (Birkinshaw et al., 2000; Stahl & Voigt, 2008; Thanos & Papadakis, 2012).

2.2.4.6 Innovation Performance

A less common way of assessing M&A performance is to examine the extent to which a merger or an acquisition impacts the innovation activity of the acquirer, of the target or of the combined entity. Typical variables to measure such an impact is the change in number of patents, change in R&D intensity (commonly measured as R&D expenses as a fraction of sales) or a combination of the two (Thanos & Papadakis, 2012).

Another way to gauge acquisition success, particularly when targets compete in technology-intensive industries, is to examine the extent to which how effectively acquirers manage their coordination-autonomy dilemma, i.e., exploiting targets' resources and capabilities by the acquirer (precisely those that accounted for a substantial fraction of target's economic value) and, at the same time, sustaining an appropriate level of target's autonomy without hindering its valuable exploration capabilities (Puranam, Singh, & Zollo, 2006).

Another interesting example comes from Makri, Hitt, and Lane (2010) in analyzing the effects of scientific and technological similarity and complementarity on innovation performance of the combined entity, measured by three dependent variables: invention quantity (measured the number of patents), invention quality (the extent by which a firm's patents are cited in subsequent patents) and invention novelty (the extent to which a firm's patent portfolio extends to a range of technology classes). These authors posit that similarities in knowledge facilitate incremental renewal while complementarities would increase the likelihood of discontinuous strategic transformations, suggesting that high-technology firms should acquire businesses that have scientific and technological knowledge that is complementary to their own.

Innovation-related measures have also their limitations. First, the use of patents as a proxy for innovative output assumes that all inventions can be patented, which is not always the case. Second, the use of surveys for measuring certain perceived innovation dimensions might also suffer from informant bias (Thanos & Papadakis, 2012).

2.2.4.7 Divestitures

Divestitures (or survival), interpreted as management's dissatisfaction with targets' results, are another proxy that researchers have used to assess acquisition performance, although there is no consensus on the time frame within which the divestment decision has been made by the acquiring firm, ranging from five to more than ten years. The underlying assumption is that a firm will, in general, not divest or close down a successful business (Kaplan & Weisbach, 1992; Porter, 1987; Schoenberg, 2006).

Main criticisms to its use in M&A literature include considerations that it is a too "coarse-grained measure" and that divestments may occur not because dismal acquired firms' performance but because acquirers' decision to reconfigure their corporate portfolios and/or capture substantial economic value by selling the divested business at a price well above its acquisition cost (Schoenberg, 2006).

Asset divestitures and resource redeployments have also examined in this literature as a capital reallocation strategies to increase acquisition performance through cost savings and improved revenue-enhancing capabilities, particularly in horizontal acquisitions (Capron, 1999).

From the above discussions, it should be clear that there is not a superior construct to measure an acquisition performance. Each one has its inherent advantages as well as its limitations. In this respect, it is worthwhile to bear in mind Cording et al. (2010) contention, supported by their confirmatory factor analysis to investigate the dimensionality of the acquisition performance construct: "Our analysis clearly shows that there is no higher order construct that may legitimately be labeled "acquisition performance" but there are relatively distinct domains that each research area can comfortably work within" (pp. 32).

2.2.5 What Do We Know About M&A Performance?

From evidence provided by the academic and the corporate world over the last 30 years or more, it seems that the apparent paradox between the astounding growth of M&A activity and their dismal performance has not been properly clarified.

Empirical academic research using short and long term financial performance has found that while, on average, target firms' shareholders gain significant plosive returns, results for acquiring firms' shareholders are mixed, with studies showing significantly negative returns or returns not significantly different from zero (Agrawal & Jaffe, 2000; Tuch & O'Sullivan, 2007). Likewise, findings from studies using accounting-based performance measures have also shown lackluster acquirers' performance (Papadakis & Thanos, 2010). This same conclusion also applies to extant research using the other above mentioned performance constructs, whether measured by key informants' subjective assessments (Papadakis & Thanos, 2010; Schoenberg, 2006), or by the number of divestitures (Kaplan & Weisbach, 1992; Porter, 1987; Ravenscraft & Scherer, 1987). Reports from the management consulting community are not so different, where references to merger failure rates between 40% to 60% are not uncommon (Adolph et al., 2001; Christofferson et al., 2004; Habeck, Kröger, & Träm, 2000).

Notwithstanding the growing body of research on the determinants of M&A performance, the key factors of success and the reasons why M&A often fail remain poorly understood, which led Cartwright and Schoenberg (2006) advance three possible reasons why M&A activity has shown a persistent lack of improvement over the years: a) acquisitions are driven by non-value maximizing motives, b) prescriptions from academic research are not reaching the practitioner community and c) the research to date is incomplete. Haleblian et al. (2009) posit similar reasons and add one that speculates whether academic insights may not generate sufficient increased shareholder value to justify implementation.

Apparently neither reason a) nor b) justify the dismal M&A performance. Despite sparse evidence that some M&A transactions are decided on a motivation other than value maximization – either in domestic (Berkovitch & Narayanan, 1993) or in cross-border acquisitions (Seth, Song, & Pettit, 2000) – the risks, advantages and success determinants of M&A activity have been systematically emphasized not only in the financial press and in practitioner-oriented texts (Child et al., 2001; Haspeslagh & Jemison, 1991; Hitt, Harrison, & Ireland, 2001), as have been also thoroughly addressed by the management consulting firms such as The Boston Consulting Group (Kengelbach, Klemmer, & Roos, 2012; Kengelbach, Utzerath, Kaserer, & Schatt, 2013), Booz & Company (Adolph, Mainardi, & Neely, 2012; Adolph & Pettit, 2009; Sisk & Sambrook, 2006), and McKinsey (Christofferson et al., 2004; Goedhart, Koller, & Wessels, 2010).

Over the years, meta-analytical techniques have been increasingly improved and sophisticated, either because the significant increase in sample sizes – due to the multiplication of published studies, allowing better estimations of the population values for the relationships between commonly used M&A explanatory variables – or because of the analysis of the impact of new variables and also the use of multiple M&A performance measurements as dependent variables.

In a comprehensive and widely cited meta-analysis on post-acquisition performance, King et al. (2004), using a sample of 93 empirical studies (published by first-tier journals in accounting, finance, economics and management), 852 effect sizes with a combined size of 206,910 observations, surprisingly found that post-acquisition performance is moderated by other unknown variables, unspecified in extant research. The moderating effect of the four commonly examined variables in existing literature – a) whether or not the acquiring firm is a diversified conglomerate, b) whether or not the acquired firm competes in a related industry, c) whether or not the acquisition is paid with cash or acquirer's shares, and d) whether or not the acquiring firm had a prior acquisition experience – had no statistically significant impact. Their results also lead to a conclusion that – based on the large number of studies, effect sizes and total sample on which their analyses are supported – the true population relationship between the M&A announcements and the performance of acquiring firms is very near zero or negative, beyond the announcement day. It is noteworthy their closing comments, though recognizing the limitation of their study, stemming fundamentally from the restricted subset of variables on which extant studies have relied: "Thus, despite decades of research, what impacts the financial performance of acquiring firms engaging in M&A activity remains largely unexplained" (King et al., 2004, p. 198).

The results from various event studies are inconclusive with regard to the factors influencing the outcome of M&As. Some researchers have noted that the chances of a positive impact on performance increases if the firms involved are in related industries (Carow, Heron, & Saxton, 2004; Morck & Yeung, 1991), while others have reached the opposite conclusion (Aybar & Ficici, 2009; Lubatkin, 1987). Moreover, some studies indicate that returns to the acquiring company develop more favorably in cross-border M&As than in domestic ones (Inoue & Ings, 2012; Markides & Ittner, 1994), whereas others do not support that finding (Cakici, Hessel, & Tandon, 1996).

Research linked to the industrial organization tradition offer an alternative assessment of performance by using accounting data to measure some performance variables (e.g. profitability, market share, etc.) a few years before and after the transaction. Although these studies normally consider longer time horizons than those in the financial and management literature, most of them do not show significant improvement in long term profitability after acquisitions.

As acquisitions, in general, do not generate economic and financial benefits to acquirers, M&A researchers have increasingly been concerned with developing a better understanding of the specific contexts where value creation is the final outcome. From a massive academic production over the last decades, scholars have identified a number of factors that moderate the relationship between M&A activity and performance: deal characteristics, managerial effects, firm characteristics, environmental factors and acquisition premium effects (Haleblian et al., 2009).

Deal characteristics – Type of the deal (whether it is a tender offer or a merger) and payment method (whether in cash or in acquirer's shares) are the two most commonly employed moderators in empirical research, predominantly from the corporate finance field. Evidence suggests that tender offers – in which the bidding firm makes a public offer to purchase a certain amount of shares directly from shareholders – outperform mergers, particularly in cash-financed deals (Haleblian et al., 2009; Hitt et al., 2001).

On the other hand, a common argument stresses that managers of bidding firms resort to cash-financed deals when they perceive their firms are undervalued and to stock-financed deals when they perceive their firms are overvalued (King et al., 2004), suggesting that the market should perceive stock-financed deals as a signal of bidder overvaluation. In general, findings from a myriad of studies that have explored the moderating effects of whether deals are cash or equity-financed have produced mixed results (Haleblian et al., 2009).

Managerial effects – Two specific research questions are addressed, particularly in the financial and management literature. The first is whether different managerial schemes of ownership and compensation (or the presence of equity-based incentives) affect the relationship between M&A activity and performance and, here too, the findings are inconclusive and produced mixed results. Whereas some studies concluded that announcement returns to bidders' shareholders are higher under moderate levels of managerial ownership – a situation where, according to the authors, there exists a better alignment between shareholders'' and managers' interest leading to lower bid premiums (Hubbard & Palia, 1996), others have challenged this finding arguing that the causality direction is from performance to ownership, i.e., management compensation schemes are contingent on the acquisition performance (Loderer & Martin, 1997).

The second is concerned with the effects of personal managerial experience and cognition on M&A performance. Studies have shown that managerial experience matters when it comes to the expected performance of acquisitions. Besides cultural and/or psychological factors that affect managerial perceptions and the likelihood of M&A activity success (see **section 2.3** on theoretical approaches to the role of culture in M&A), extant research on executive departures in M&A contexts has shown the investors had a negative reaction to post acquisition executive turnovers in the target firms, suggesting that valuable resources are lost with negative expected performance implications to the combined entity (Krug, 2009).

Firm characteristics – Three of the most common moderating variables at firm level found in empirical research on M&A-performance relationship are the *acquirers' experience*, *size* and *historical performance*.

Findings of extant research has shown mixed results regarding the effect of experience on M&A performance, suggesting that other moderating variables influence this relationship. The main research question here is whether firms learn from their acquisition experience. Drawing from the organizational learning perspective, Hayward (2002) tested this hypothesis employing a sample of 214 acquisitions made by 120 US bidders in 6 industries between 1990 and 1995 and found that this hypothesis is verified only in very specific circumstances where the prior acquisitions a) were not highly similar or dissimilar to the focal acquisition, b) resulted in "small losses", based upon investors' reactions and c) were not too temporarily close to or distant from the focal acquisition, identifying the general conditions in which firms generate adaptive and thoughtful inferences from acquisition experience. Another interesting empirical evidence comes from Laamanen and Keil (2008) in their study of the acquisitive behavior of the "serial acquirers" in seven industries in the US during the 1990s, concluding that the high rate of acquisitions and high variability of the rate are negatively related to M&A

performance, but important moderator variables weaken this effect, such as firm size, the scope of its acquisition program – measured by the expansion of the acquiring firms' two-digit SIC code portfolio, brought about by acquisitions of firms from unrelated industries – and acquisition experience. **Section 2.3.6** complements this literature review in a cross-border context.

Firm size is another relevant moderator variable, despite inconclusive findings with respect to its influence on M&A performance. Whereas extant research concluded that size effects can be linked to asset productivity gains, enhanced customer attraction, employee productivity and assets growth (Haleblian et al., 2009) and is also the driver of the effectiveness of the integration process (Hitt et al., 2012), other researchers have found some contradicting results. For instance, Moeller et al. (2004), examining a sample of 12,023 acquisitions by US public firms from 1980 to 2001, found that investors reacted positively to small acquisitions by small acquirers, whereas the opposite reaction has been observed in large acquisitions by large acquirers, suggesting that large firms tend to offer higher acquisition premiums than small firms and engage in acquisitions with negative synergy gains, consistent, therefore, with the managerial hubris hypothesis.

Under the general assumption that acquiring firm performance displays inertia – i.e., that firms that performed well before an acquisition will continue to display high performance – studies that tested the prior performance effects on M&A performance found, in general, that M&A performance increases when high-performing acquirers combine with low-performing targets, an expected outcome, because of an upside restructuring value that distressed targets offer (Heron & Lie, 2002; Lang, Stulz, & Walkling, 1991). However, research has also shown that the acquisition of severely distressed targets will likely lead to decrease of acquirers' long term accounting and market returns, thus suggesting that there are limits and diminishing returns to restructuring efforts (Clark & Ofek, 1994).

Environmental factors – Two relevant contextual issues to be considered in this topic are the effect that temporal and episodic events such as *merger waves* and *regulation* might have on market responses to M&A activity.

In a literature review, Kolev, Haleblian, and McNamara (2012) contend that there are compelling empirical evidence that mergers and acquisitions are not random processes and they occur in waves, but not necessrily motivated by the same drivers. In their Table 2.1, these authors identify five big merger waves: the first in 1897-1903 period, the second during 1920-1929, the third in 1960s-1973, the forth in the 1980s and the fifth in 1190s-2001. Unlike the previous waves, the last had a widespread geographic scope, driven by globalization, deregulation and privatization forces, in which acquisitions were predominantly related (acquiries and targets competing in related industries) and primarily motivated by expanding operations in foreign markets[35].

Analyzing the merger motives over time, Matsusaka (1993) identified interesting changes in investors' sentiment toward diversification strategies, noting that diversifying acquisitions resulted in positive bidder returns during the 1968-1974 period, neutral returns from 1975 to 1979 negative returns from 1980 to 1987 and suggesting that the main reasons behind those changes might have been the first-mover advantage effects and a more liberal regulation towards "conglomeration". First-mover advantage effects have also been examined by researchers, with reasonably convergent findings that market reactions to early movers have been positive, particularly for bidders that possessed superior information, paid with cash and expanded in related industries (Carow et al., 2004), taking advantage of information asymetries, acquiring valuable resources at lower prices. In another study, Mcnamara, Haleblian, and Dykes (2008) additionally found that the market reacted positively to bidders at the farthest point of the wave (owing to learning) but penalized those latecomers, as victims of bandwagon imitation.

Changes in the regulatory environment also influence the way that investors react by changing the attractiveness of the M&A activity and shifting the bidder-target power relationship (Haleblian et al., 2009).

[35] In this literature review, Kolev et al. (2012) do not explicitly include Latin America in the geographical scope neither in the fourth nor in fifth wave (they only mentioned US, UK, Europe and Asia), but interested readers can have a broad historical and economical view on the globalization implications on Latin America during the 1990s in Bulmer-Thomas (2006), on the institutional framework in the region at this time in Harber (2006) and on the ensuing "third wave" internationalization movements of Latin American multinationals – also motivated by market seeking foreign investments – in Chudnovsky et al. (1999) and in Fleury and Fleury (2011).

Acquisition premium effects – Acquisition premium is usually defined as the difference between the purchase price of the target paid by the acquirer and the target's pre-acquisition market price divided by the target's pre-acquisition market price[36].

A significant number of empirical research has ascribed to the high acquisition premiums the main reason why M&A transactions fail, due to the fact that it places a huge burden on the acquiring executives – sometimes calling for traumatic restructuring decisions, involving divestitures of assets and large-scale work-force reductions, leading to losses of valuable human capital – to extract the needed synergies to recoup the acquisition costs in the merged organization (Alberts & Varaiya, 1989; Hitt et al., 2012).

Whereas the finance literature has focused on target firms' tactics to influence acquisition premiums and/or the likelihood of being acquired, the management literature has examined the acquirers' motivations to engage in M&A activity and assess important effects on M&A outcomes, i.e., management researchers have been much more concerned with bidders rather than with targets (Haleblian et al., 2009).

Although synergy creation – by capitalizing on complementary resources and capabilities to produce valuable products or services, to generate economies of scale and scope, to eliminate inefficiencies and redundancies along the value chain, to redeploy assets to more profitable uses and to achieve market power via industry consolidation – is the predominant motivation for paying large premiums, there are additional reasons why acquiring firms pay substantial premiums to targets. These reasons include managerial hubris (Hayward & Hambrick, 1997; Roll, 1986), agency factors (Trautwein, 1990), intensively contested bidding processes[37], network effects of board interlocks (Haunschild, 1993), the presence of investment advisors (Porrini, 2006; Stouraitis, 2003), consolidation trends in some industries and the desire to acquire intangible assets-intensive firms (Hitt et al., 2012).

[36] This definition is consistent with the cases where the target firms are public companies. In the case they are not listed in any stock exchange, their recently available pre-acquisition equity book value can be used as a reference to the "market value", despite all widely known drawbacks of using such an accounting figure. See Penman (1998) for procedures to combine accounting numbers in equity valuations. Bao and Chow (1999) propose an equity valuation model based on accounting parametrs for the Chinese context.

[37] Leading to the "winners' curse" phenomenon, as described by Varaiya (1988).

Whatever the negative impact that acquisition premiums might have on the M&A activity, recent research have also emphasized the fact that acquisition premiums may be justified when target firms' resources, particularly in technology-intensive industries – are difficult to value by the market. Laamanen (2007), for example, using a sample of 458 acquisitions of US firms competing in technology-intensive industries in the 1989-1999 period found that acquisition premiums were not the cause of abnormal returns. Abnormal returns were more affected by the overall target price levels, independent of premia. Acquisition premiums showed a significant and positive relationship with the R&D intensity and growth, as these latter variables have been shown to proxy the number future growth options held by these firms.

2.2.5.1 M&A: A Process Perspective

Back in early 1980s, a group of researchers – David Jemison and Sim Sitkin from Stanford University, Philippe Haspeslagh from INSEAD and a number of research assistants – set forth a research agenda which have become to be known as the process perspective of mergers and acquisitions. They were essentially motivated by the quest of sensible and theoretically robust answers to the question of why do so many acquisitions seem to have disappointing results, despite the availability (at that time) of so many prescriptions for making acquisitions work?

Based on interviews of more than 300 managers in 10 countries, Jemison and Sitkin's initial focus were on broad questions of why acquisitions do or do not work, which generated the initial insights on the impact of the acquisition decision-making and integration processes on M&A outcomes. A sequel research project, supported by an in-depth field study, explored how transferring capabilities from acquisitions can lead to value creation and examined what actually happened during the integration processes in firms where strategic acquisitions were made to improve the competitive position of one or both partner firms. This study also led to a grounded theory of the integration process and of the typical problems that might emerge in this process. The outcome of these works and the findings were reported in a well known and widely cited paper (Jemison & Sitkin, 1986).

Parallel research initiatives have been carried out by Haspeslagh and research assistants at INSEAD, focusing on how firms manage their acquisitive development, involving an in-depth examination of decision-making and integration processes in a structured sample of 11 acquisitions in three large multinationals in the oil and chemical sectors[38]. In a sequential phase, emerging findings were tested in three further acquisitions made by BASF, the German chemical conglomerate. The theory development and research have been reported in a conference paper (Haspeslagh & Farquhar, 1987). In a third phase, focus has been directed to two under researched areas, based on interviews in two European multinational conglomerates[39], involving senior operating managers, senior acquired company management and corporate staff members in charge of planning, human resource management, finance and acquisitions. The first research area comprised the specific issues implicit in making numerous and rapid acquisitions[40], and the second was the transition from acquisition integration to ongoing management operations.

In early 1990s Jamison and Haspeslagh agreed to merge their research in a book that, over the last three decades, has been considered as the seminal reference on the process perspective on M&A, combining eight consecutive years of research, involving more than 300 interviews in 20 firms in US, Europe and Japan (Haspeslagh & Jemison, 1991).

In its basic form, the process perspective does not reject the contributions that the financial economists, strategic management and organizational behavior researchers have made to M&A research. It should be seen as a supplementary research strand whose key message is that "…key differences between acquisition success and failure lie in understanding and better managing the *processes* by which acquisition decisions are made and by which they are integrated" (Haspeslagh & Jemison, 1991, p. 3).

The process perspective posits that mergers and acquisitions are complex organizational activities. First, it recognizes that the decision making process in an M&A context is subject to factors that act as potential impediments to the successful acquisition integration completion. The four impediment factors – activity segmentation, escalating momentum, expectational ambiguity and management system misapplication – are thorough and

[38] The three companies are: Imperial Chemical Industries (ICI), British Petroleum (BP) and "Unichem" (its identity has been disguised), an American chemical conglomerate diversified across a broad range of chemical areas including agricultural products, petrochemicals, plastics, pharmaceuticals, and some consumer products.

[39] Valmet, a Finnish capital goods manufacturer, and Electrolux, a Swedish appliance manufacturer.

[40] Firms that followed this strategy have been dubbed as "strategic assemblers" by Haspellagh and his team of researchers. Strategic assemblers use acquisitions to "assemble" leading positions in rapidly restructuring industries (Haspeslagh & Ghoshal, 1990).

exhaustively discussed by Jemison and Sitkin (1986). Second, it proposes that the integration phase should be considered as an adaptive process of interaction that takes place when firms come together in an atmosphere conducive to capability transfer, resource sharing and learning. Ultimately, it is the ability to understand each other's organizational context and to create this atmosphere that strategic capability transfer – and ensuing value creation stemming from the realization of the expected synergies – will be made possible, notwithstanding a series of problems that may arise in the process (Haspeslagh & Jemison, 1991).

Based on their research, Haspeslagh and Jemison (1991) found three recurring process-based problems that tended to hinder the combined firms' ability to create an atmosphere conducive to capability transfer. The first, *determinism*, is the tendency to cling to the original acquisition justification in spite of a different or changing reality confronting the acquisition. The second, non-economic *value destruction*, reflects the impact of the acquisition on individual managers and employees of the acquired firm. The third, *leadership vacuum*, refers to the lack of appropriate leadership to articulate a new purpose for the combined entity.

Drawing on the grounded contingency theory of acquisition integration, Haspeslagh and Farquhar (1987) identified two fundamental dimensions on which a firm's approach to integration should be built: the first, *need for strategic interdependence*, relates to the nature of the interdependence that needs to be established between the firms to make possible the type of strategic capability transfer that is expected. The second, *need for organizational autonomy*, is concerned with the need to preserve intact the acquired strategic capability after the acquisition. Combining these two dimensions, three relevant integration approaches can be identified (see **Figure 4**) and one, labeled "*holding*" acquisitions where target firms usually become members of diversified business portfolios and the relationship between the combining firms is justified only because of value creation stemming from financial flows, risk-sharing and/or general management capability transfers.

Preservation acquisitions are those that require a high need for autonomy and a low need for interdependence among the combining firms, which suggests that the managerial task is to keep intact the source of the acquired benefits; acquired operations are managed at arm's length, except in those areas where interdependence is to be pursued. In contrast, *symbiotic* acquisitions require high needs for both strategic interdependence and organizational autonomy, which presents complex managerial challenges; in this approach, two organizations (acquirer and target) first coexist and then gradually become slowly and increasingly interdependent, despite the tension stemming from the conflicting needs for strategic capability transfer and the preservation of each organization's autonomy and culture. *Absorption* acquisitions are characterized by their low need for organizational autonomy and high need for strategic interdependence, implying a full consolidation over time (Haspeslagh & Jemison, 1991).

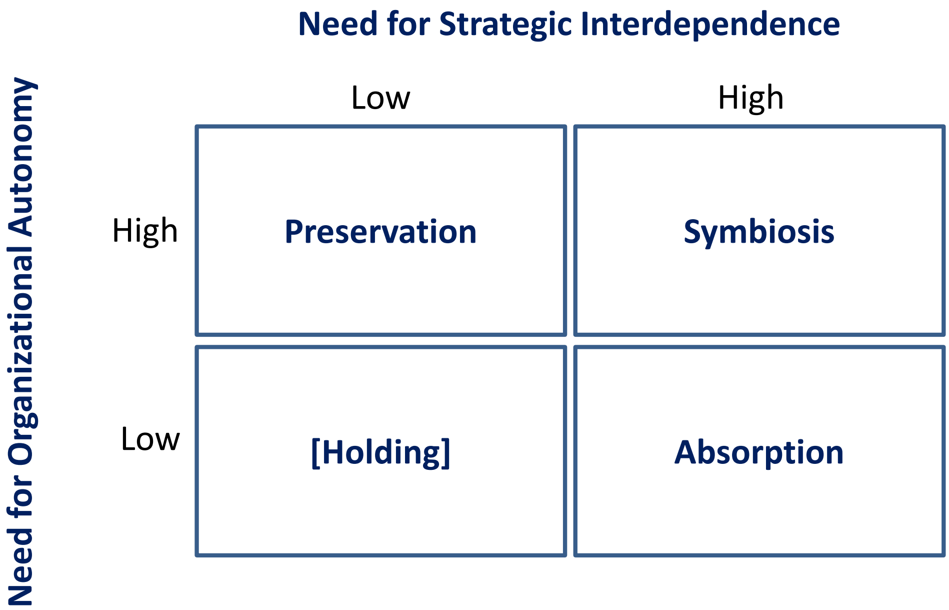

Figure 4. **Types of acquisition integration approaches**. Source: Haspeslagh and Jemison (1991).

Weber, Tarba, Stahl, and Bachar-Rozen (2012) extended Haspeslagh & Jemison's framework adding to this 2x2 matrix a third dimension related to the acquirer's national and corporate cultural dimensions. They contend that, considered individually, the level of integration, cultural differences and synergy potential variables are not sufficient to explain M&A performance, which explains why findings in extant empirical research on the effect of cultural differences on M&A outcomes is confusing and contradictory (Brock, 2005; Slangen, 2006; Weber et al., 2011). Using the survey method based on a sample of 22 acquisitions of Israeli targets (competing in the biotechnology industry) made by foreign bidders, and on existing instruments to measure corporate cultural differences, national cultural distance, synergy potential, fit of integration approach and integration effectiveness, they found that a) cultural differences are significantly and negatively associated with integration effectiveness, b) fit of integration approach (i.e., the extent to which the recommended and actually implemented integration approach are convergent) is significantly and positively related to integration effectiveness, and c) the fit of integration approach moderates the relationship between the synergy potential and integration effectiveness.

Since the publication of Haspeslagh and Jemison (1991) book, a number of researchers presented their own acquisition integration approaches using different dimensions. One example is Nahavandi and Malekzadeh's (1988) proposal – drawn from anthropology and cross-cultural psychology – and contention that minimal acculturation stress will result if there is a congruence between the two companies concerning the preferred mode of acculturation and that the mode of acculturation between the two companies will facilitate the implementation of the merger or acquisition. See the details on the acculturation perspective in **section 2.3.2**.

Other scholars looked at the integration processes emphasizing the relevance of socio-cultural integration. In a longitudinal research focusing on the post acquisition integration process in three foreign acquisitions made by Swedish multinationals, Birkinshaw et al. (2000) found that the integration phase had been effectively implemented by these multinationals due to the execution of two clearly identified sub-processes: *task integration* and *human resources integration*. Whereas in the former the primary managerial concern is the identification and realization of operating synergies, in the latter the main objective is to create positive attitudes towards the integration among employees on both sides, building an atmosphere of mutual respect and trust.

Although distinct, these two sub-processes interacted with each other: in phase one, task integration led to a satisficing solution that limited the interaction between acquiring and target firms, while human integration advanced smoothly and led to cultural convergence and mutual respect. In phase two, a renewed task integration was accomplished built on the successful implementation of the human integration during the previous phase, leading to an overall success of the acquisitions (Birkinshaw et al., 2000).

Due to its interesting research design and its findings, this study served as a reference to a number of others that investigated the impact of national and corporate cultural differences on integration outcomes and, ultimately on overall M&A performance, amongst them the widely cited meta-analysis conducted by Stahl and Voigt (2008) and discussed elsewhere in this thesis.

Over the last two decades, motivated, first, by the contradictory findings of past research regarding the effects of national and cultural distance on M&A performance and, second, by the astounding growth of cross-border M&A activity, a growing body of research has drawn upon the process perspective to highlight the importance of the successful completion of the integration process as a necessary (but not sufficient) condition to the successful completion of the M&A deal.

It is worth noting that integration has received a distinctive attention from several disciplines and theoretical backgrounds in the analysis of specific issues related to the performance antecedents of this process, in particular the effects of national and corporate culture and the impact managerial decisions related to its implementation. Schweiger and Goulet (2000) present an interesting review of this literature.

To the extent that the integration phase is affected by the particular pattern of decision making processes and the socio-cultural dynamics that unfolds when the combining firms interact with each other, the process perspective also gave rise to several scholars' call for more integrative approaches to the undertanding of such issues. This is the central theme of the next section.

2.2.5.2 The Quest for an Integrative Approach: Understanding the Socio-Cultural Dynamics of M&A

Previous discussions have emphasized that the complex nature of M&A is reflected in the extensive body of research conducted in the fields of strategic management, organization theory, organizational behavior, human resource management and finance. Based on the categorization proposed by Haspeslagh and Jemison (1991), Birkinshaw et al. (2000) sinthesized the main research streams' theoretical roots, objective functions and central hypotheses. **Table 6** depicts the details.

Table 6

Summary of Research Streams on M&A

Research stream	Objective function	Theoretical Underpinnings	Central Proposition
Financial Economics	Wealth creation for shareholders	Market for corporate control; Agency theory; Efficient market hypothesis (EMH)	Acquisitions enhance the efficiency of the market for corporate control and, thus, result in net wealth creation for shareholders
Strategic Management	Performance of acquiring and/or acquired firms	Industrial organization economics; Structure-conduct-performance (SCP) paradigm; Resource-based view of the firm	Synergies (stemming from economies of scale and scope, market power and access to valuable, rare and inimitable resources and capabilities) will have a positive impact on acquirer's performance
Organizational Behavior	Impact of acquisition on individuals and on organizational culture	Acculturation theory; Social identity theory; Theory of relative standing; Organizational learning	The congruence between the cultures of two merged organizations will facilitate employee satisfaction, motivation and effective integration
Process Perspective	Value creation after an acquisition	Behavioral theory of the firm	The actions of management and the integration process determine the extent to which the potential benefits of the merger or acquisition are realized

Note. Source: Adapted from Birkinshaw et al. (2000).

It seems that, despite high M&A failure rates and a massive body of research on M&A-related phenomena, neither academics nor practitioners have a full understanding of the relevant variables that influence the outcome of each phase of the M&A process, let alone how they relate with each other, a statement supported by widely known meta-analytical studies (King et al., 2004; Stahl & Voigt, 2008)

Part of the problem lies, as already mentioned elsewhere, with the complex, multilevel, multistage and multidisciplinary nature of this process, that tends to be treated in a compartmentalized way by each of the several disciplines and related theoretical lenses. Disciplinary rigidities tend to preserve this state of affairs, which impede scholars to step in each others' turf (Stahl, Mendenhall, & Weber, 2005; Teerikangas, Joseph, & Faulkner, 2012a).

Whereas financial economics and strategic management scholars have overlooked the organizational and human resources management (HRM) issues – that are critical parts of the acquisition integration process and may play a decisive role in determining the success or failure of an M&A initiative – research from an organizational and HRM perspective have not integrated important notions and concepts drawn from the strategic, finance and economics literatures (Larsson & Finkelstein, 1999).

In order to address this observed fragmentation in M&A research, scholars began to open the M&A process "black-box", looking at the sub-processes that comprise the whole M&A activity, their interrelationships and their impact on performance, integrating strategic, economic, organizational and human resources theoretical strands. Given the complexity and sophistication of these models, in general, researchers had to resort to "innovative" research designs, data collection techniques and statistical inference methods, usually based on structural equation model (SEM) techniques.

Larsson and Finkelstein's (1999) study is a pioneering effort in this direction. Adopting the case survey method – which has the advantage of tapping the rich and complex data reported in most case studies and, at the same time, pooling relevant cases into larger samples that enable cross-sectional statistical analyses – applied to a sample of 61 cases of domestic and cross-border acquisitions, the authors tested a number of hypotheses based upon the model

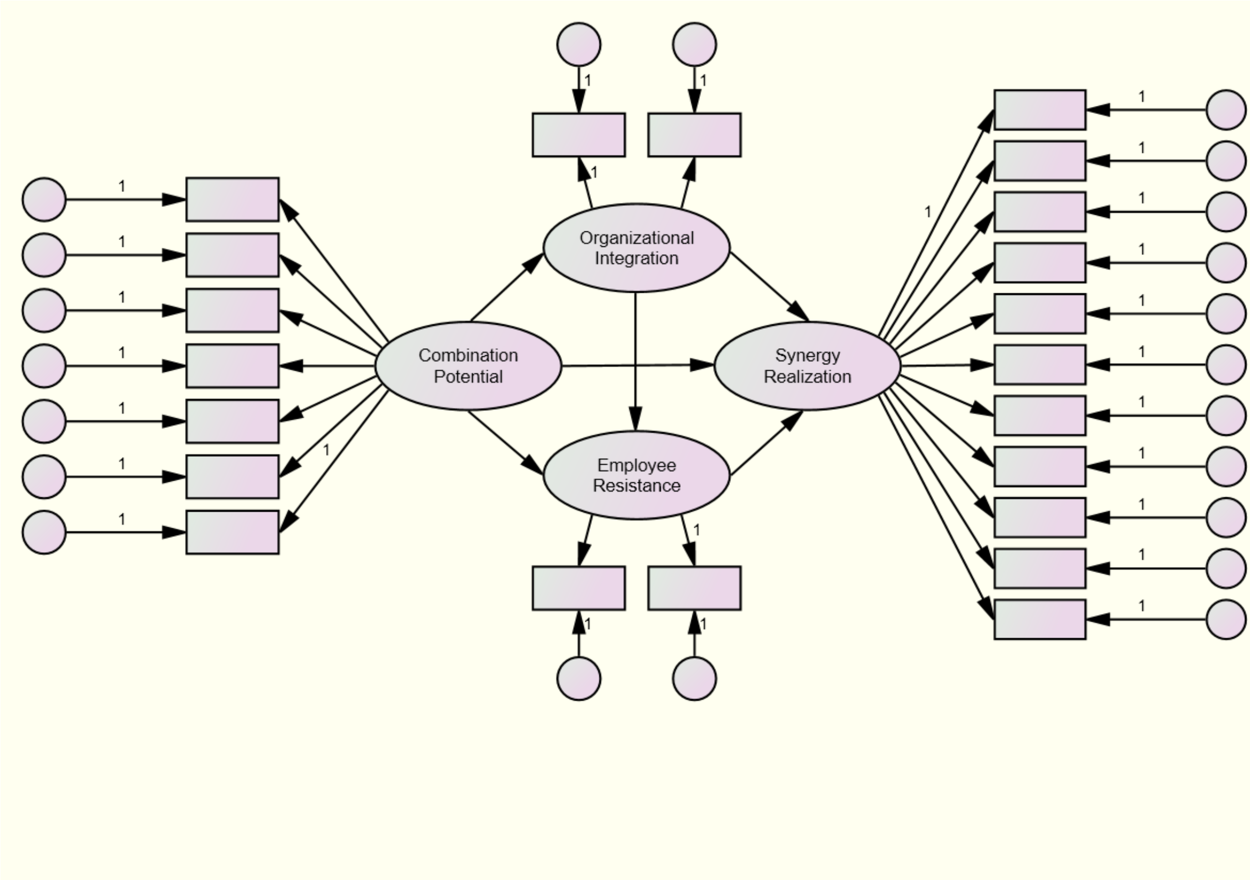

***Figure 5*. An integrative M&A model**. Source: Adapted from Larsson and Finkelstein (1999).

depicted in **Figure 5**[41]. Under the fundamental assumptions that synergy realization is a conceptually appropriate measure of M&A performance (Haspeslagh & Jemison, 1991) and that synergy realization depends on the acquirer and target firms' combination potential, the degree of integration achieved and the lack of employee resistance, the authors' central proposition were twofold: a) to test a model that synthesizes the theoretical perspectives on the strategic combination, organizational integration, HRM and financial performance components of M&A transactions and b) examine the mechanisms through which several critical characteristics of an acquisition affect the M&A performance, here defined as a latent variable, measured by a number of representative items. Their main conclusions were that 1) the presence of complementary operations increased the probability of acquisition success (by improving synergy realization); 2) organizational integration was the single most important factor in explaining synergy realization; 3) M&A transactions that were depended on gains

[41] To avoid cluttering, the descriptions of the several items that measure each of the main four latent variables (combination potential, organizational integration, employee resistence and synergy realization) were supressed.

from combining similar production and marketing operations tended to elicit more resistance from employees than M&A transactions that focused on realizing complementary resources and capabilities; and 4) employee resistance was significant and negatively associated with synergy realization. The latter finding is consistent with HRM-related aspects of M&As, insofar as they often have a severe effect on acquires firms' employees who may experience significant stress, career disruptions and culture clashes over months or years following the merger or acquisition (Larsson & Finkelstein, 1999).

Over time, similar models have been developed by researchers. Notwithstanding the differing research designs and data collecting methods, these models have also been conceived to test hypotheses regarding the effects of variables related to the strategic and organizational fitness of the merging firms on the integration task performance, which ultimately impacts the whole M&A process, whose overall performance is usually measured by a multidimensional construct.

Linking task, transaction and firm-level constructs under different time horizons (short and long term), Zollo and Meier (2008) developed a model which confirmed the multidimensionality of the M&A performance construct (measured by accounting-based and financial variables) which, in turn, was impacted by the integration process performance, through customer and employee retention.

In a recent work, Straub, Borzillo, and Probst (2012), considering the acquirer or the merged entity as the unit of analysis, developed a model aiming at testing hypotheses regarding the impact of strategic (product and market similarities and complementarities), organizational behavior (amongst them the cultural distance between the merging firms[42]) and financial variables[43] on M&A performance, a three-dimensional construct measured by 1) the extent to which synergies are realized; 2) the relative performance against competitors; and 3) absolute performance measured by accounting-based variables. Their major finding is that M&A performance is explained by the key determinants arising from various and distinct research

[42] The authors do not provide any detail regarding the measurement of the cultural distance construct, but based on the number of items used to measure it, I presume they are talking about the same instrument used by S. Chatterjee et al. (1992) to measure the organizational cultural distance between the acquirer and the traget firms.

[43] Measured at the deal level: the premium paid, the competitive intensity of the bidding process and whether the due diligence was executed or not.

streams: strategy, organizational behavior and finance. Cultural distance impact, although in predicted direction, was not significantly different from zero, which contradicts the findings of Weber et al. (2012), mentioned in the previous section.

Increasing modeling complexity and sophistication notwithstanding, the role of culture has been intensively debated, particularly over the last 15-20 years, and still is regarded as one of the “unresolved” questions in the M&A research (Gomes et al., 2013; Stahl et al., 2013; Stahl et al., 2005; Stahl & Voigt, 2008), a topic to be covered in the next section.

2.3 The Theoretical Approaches to the Role of Culture in M&A

Recent literature that explores the role of culture in M&A commonly draw from eight perspectives that can explain and predict the relationship of cultural differences between the merging firms and the performance of M&A transactions in which they are involved: the cultural fit (or culture compatibility) perspective, the acculturation perspective, the social identity theory, the capital markets perspective, the resource-based view of the firm, the organization learning theories, the theory of relative standing and the relationship of cultural distance and trust in these transactions (Stahl, 2008, 2012).

Despite fundamental differences amongst the theoretical models and perspectives discussed below, they tend to converge on two main assumptions: a) that differences in national culture impacts the post merger acquisition process and b) that M&A success and failure cannot be sufficiently accounted for by pre-merger cultural differences without taking the wider and complex integration process into consideration.

2.3.1 The Cultural Fit or Culture Compatibility Perspective

The study of Cartwright and Cooper (1993) is the main representative of this research stream. A key underlying assumption in these models is that the degree of similarity between the cultures of merging companies is a critical determinant of the subsequent integration process and outcomes (Bauer & Matzler, 2013; David & Singh, 1994; Weber et al., 1996). These models are largely consistent with the “cultural distance hypothesis” that the difficulties, costs, and risks associated with cross cultural interaction increase as the cultural differences between individuals, groups and organizations increase. Since organizations, in general, strive to preserve their cultures, mergers between companies with dissimilar cultures are expected to result in major integration problems.

Drawing on the organizational typology proposed by R. Harrison (1972) and on the analysis of the acculturation phenomena on mergers and acquisition settings made by Nahavandi and Malekzadeh (1988), Cartwright and Cooper (1993) propose a framework that combines the cultural characteristics of the merging firms and the expected acculturation process that may unfold during the post merger integration process. The key insight of their proposed framework is the fact that successful integration will depend upon the shared perception of both partnering organizations on those aspects of the other culture that are attractive and worth preserving. Therefore, culture similarity is not necessarily a prerequisite to the success of an organizational marriage – or, alternatively, two cultures characterized as "power" cultures, according to Harrison's (1972) typology, may work as an impediment to a successful combination. The attractiveness and acceptability of the acquirer's culture is depended on whether it is perceived as increasing or reducing the target firm's employee participation and autonomy. For example, changes that are perceived to impose more control are likely to increase employee resistance than those perceived as likely to increase employee autonomy (Cartwright & Cooper, 1993).

2.3.2 The Acculturation Perspective

Drawing from anthropology, *acculturation* is defined as a process of contact, conflict and adaptation in contexts where two societal cultures come together leading to changes in managerial, financial, and other practices of one or both firms and also in changes of employee behavior as well. The dynamics of such a process involves the mutual influence of two autonomous systems (Cartwright & Cooper, 1993; Nahavandi & Malekzadeh, 1988).

Acculturation models, therefore, focus on the dynamic processes by which the acquiring and target firms resolve the conflict that arises as a result of their merger, emphasizing the fact that the total assimilation of the acquired company's culture is by no means the only mode of cultural integration (Stahl, 2008).

A number of integration process variables influence the course and outcome of such a process, amongst them the perceived attractiveness of the acquirer, the extent to which the relationship between the executive team members of the merging companies is positive and the extent to which the target firm is allowed to determine its preferred mode of acculturation (Nahavandi & Malekzadeh, 1988).

Not all researchers that support their models on the acculturation perspective have the same view regarding the dynamics of such a process. Larsson and Lubatkin (2001), for instance, posit that the acculturation process is a cooperative endeavor and – using a case survey research design applied on a sample of 50 M&A transactions (23 US domestic, 15 Swedish domestic and 12 Swedish cross-border) – they found that achieving acculturation depends mainly upon how the acquiring firm manages the informal integration process, relying on "social controls" and devoting efforts in coordination and socialization activities.

On the other side, Nahavandi and Malekzadeh (1986, 1988) contend that the acculturation process outcomes can be positive or negative, depending upon the interaction between two fundamental variables that affect the behaviors of the merging firms: the perception of the attractiveness of the acquirer's culture and the willingness of the acquired firm employees to preserve their own culture. In their model, from the point of view of the acquirer, its diversification strategy and tolerance for diversity will largely determine its preferred mode of acculturation, whereas from the target firm's standpoint, the extent to which its members want to preserve their own cultural identity and the degree to which they feel attracted to the acquirer's culture will determine their preferred mode of acculturation (Stahl, 2008).

One possibility of positive outcome from the interaction of theses forces is what Nahavandi and Malekzadeh call as "integration" case of a potentially smooth transition – when the acquirer's culture is perceived by the target firm as "attractive" and the target firm members assign a significant value to the abandonment of their own culture – or an extreme case of "separation" where acquirer is not at all attractive to the target and target' members assign a high value to the preservation of their own culture. In this case, a "separation" will occur, leading to high amounts of acculturative stress, interorganizational conflict and disruption. The acquired company is likely to disintegrate as a cultural entity (Nahavandi & Malekzadeh, 1988).

2.3.3 The Social Identity Theory

Based on three principal concepts of categorization, identification and comparison, social identity theory (Tajfel & Turner, 2004) is concerned with group situations and starts from the assumption that social identity is derived primarily from group memberships. First, individuals tend to classify people along stereotypical dimensions that accentuate the differences between them. Perceptions of others thus become depersonalized, and people are considered as group members rather simply as individuals. Second, individuals tend to identify themselves with one or more groups to which they think they belong: a “social identity”, which is part of an individual’s self-concept. Third, social comparison entails the evaluation of how the position of one’s group compares with that of other groups.

Social identity theory, therefore, may highlight the constructed nature of cultural perceptions in an M&A context: organization members, while emphasizing their own positive distinctiveness, will tend to exaggerate the differences between their own and the partner’s culture. In-group bias and out-group derogation are likely to be extremely explicit in situation of threat as, for example, in takeover attempts or when the out-group is perceived to be very different from the in-group. In such situations, cohesiveness among the members of the target firm is likely to increase, and the takeover attempt may be fiercely resisted (Stahl, 2008). The theory also suggests that in-group bias on the part of a lower-status group (i.e., the target firm’s members) can be mitigated if they join the higher-status group (i.e., the acquiring firm) thus achieving positive distinctiveness through “social mobility” (Elsass & Veiga, 1994; Marmenout, 2006).

2.3.4 The Capital Markets Perspective

One of the fundamental assumptions of financial economics is that capital markets are efficient and all available information is incorporated in the assessment of the expected future earnings and, thus, in share prices (Fama et al., 1969).

In a widely cited paper, S. Chatterjee et al. (1992), based on this fundamental assumption, found that market perceptions of cultural differences between the merging firms affect shareholder value by influencing the expectations of investors about the future performance of the acquiring firms. They argued that, with the continual flow of anecdotal evidence from the business world and the popular business press about the adverse affects of "cultural collisions", it is difficult to believe that capital markets do not also factor in the human side of an M&A transaction. They found that cultural distance – determined by a scale of seven dimensions and 29 measurement items – between the top management teams of the merging firms is negatively related to investors' reaction. They also found that the hypothesis of a moderating effect of tolerance for multiculturalism is not supported by the data.

Extending this research to the international context and using a sample of 122 large cross-border acquisitions undertaken by American firms between 1978 and 1990, Datta and Puia (1995) found the existence of a negative relationship between cultural differences at national level and abnormal returns to shareholders of the acquiring firms. This suggests that investors perceive increasing post merger integration costs as cultural distance between home and host countries increase, besides the fact that acquirers may develop an inadequate understanding of foreign markets which may lead to overpayment for the target firms.

2.3.5 The Resource-Based View of the Firm

In an opposite view of the great majority of past research – that cultural differences are the cause of potential problems for the merging firms, particularly in the post merger acquisition phase – some scholars have advocated the idea that cultural differences can be a source of value creation and learning, provided that resource complementarities in allocation processes by the merging firms can generate excess economic profits (J. S. Harrison, Hitt, Hoskisson, & Ireland, 1991) and the price paid by the acquirer is such that it does not wipe out this abnormal return. As Barney (1988) suggested, only when bidding firms enjoy private, inimitable and uniquely synergistic cash flows with targets will this combination result in excess profits to the shareholders of the acquiring firms.

While, as became clear from the previous discussion, national and corporate cultures differences create sizeable challenges in the post merger integration phase, under the lens of the resource-based view of the firm, they also present valuable business opportunities and learning potential for the merging entities (Morosini, 1998; Shimizu et al., 2004).

According to this theoretical stream, sustainable competitive advantage results from valuable, rare, and inimitable resources and capabilities, that can be physical, financial or human

(Barney, 1991), only achievable under very specific conditions (Peteraf, 1993). Advantages derived from human capital-based resources – shaped by path-depended processes within the institutional and cultural environments in which firms are embedded (Barney, 1986) – manifest themselves in administrative routines and repertoires that firms develop to make decisions, to govern the resource allocation processes and the use of assets, in the formulation of strategies and in interactions with stakeholders (Fiol, 1991) and may not be easily replicated in other settings.

Under this theoretical micro foundations, Morosini (1998) and Morosini et al. (1998) argue that the access to these routines and repertoires via acquisition of a firm in another national culture could enhance the performance of the combined organization by two different mechanisms: through learning and specialization. On one side, firms in some national cultures are unable or unwilling to develop certain routines, or "way of doing things" – because specificities of their national and cultural environment – and by implementing a cross-border acquisition, the merging firms interact and learn from each other at various operating levels. On the other, routines and repertoires may be specific to some national and cultural contexts and, therefore, their access can be made at a lower cost because target firms' employees may efficiently perform some kinds of tasks (for example, R&D and the generation of innovations) that are consistent with their national and cultural values. Therefore, according to these authors, critical routines and repertoires embedded in national cultures will only materialize into economic benefits to acquirers if they are able to properly manage the complex organizational and cross-cultural coordination functions during the post merger integration phase.

Whatever the importance that cultural distance might have to the performance of cross-border acquisitions under this perspective, it is worth mentioning that recent research – digging into the analysis of the mechanisms though which knowledge is effectively transferred between merger partners (Björkman, Stahl, & Vaara, 2007) – has stressed the proposition that economic benefits can be realized **only if the cultural distance between the merging firms are not so large** that they may interfere with the successful transfer of capabilities, resource sharing and learning (Stahl & Voigt, 2008). In other words, as posited by Marks and Mirvis (2012), the parties should have sufficient similarities to take advantage of the differences, but they should not be so disparate as to be like "oil and water".

2.3.6 The Organization Learning Perspective

Researchers following this theoretical stream (Barkema & Vermeulen, 1998; Vermeulen & Barkema, 2001) also hypothesize that differences in cultures and systems may help acquiring firms break rigidities and decrease inertia, develop richer knowledge structures, and foster innovation and learning. Even if acquired capabilities cannot be directly assimilated into the acquiring firm, the infusion of new knowledge and practices – so their argument goes – is likely to boost the development of new knowledge. In contrast with greenfield investments, where the exploitation of the firm's knowledge base creates a path dependence that eventually produces inertia, cross-border acquisitions can broaden the firm's knowledge base and mitigate the problems stemming from organizational inertia.

However, here also applies Björkman et al. (2007) contention that these benefits are likely to be realized only if cultural differences between the merging firms are not so large in such a way that it may interfere with the successful completion of the integration process. Opposite styles of top management teams and the presence of non-shared values by the members of the merging organization will hinder the exploitation of the target's valuable strategic capabilities by the acquiring company. The main reason why this could happen is because cultural distance increases the likelihood that incompatible management styles and organizational practices negatively affect the effective implementation of the post merger integration (Stahl, 2008).

Drawing from the behavioral learning theory, another group of scholars have explored the question if firms learn to make successful acquisitions from past M&A activities (Greenberg, Lane, & Bahde, 2005; Haleblian & Finkelstein, 1999; Haleblian, Ji-Yub, & Rajagoplan, 2006; Hayward, 2002). Behavioral learning theory suggests that experienced companies have a higher probability of success when acquiring other companies, and there is some evidence that previous experience influences subsequent acquisitions and their performance. The underlying principle is that learning is fostered by distinct cross-border operational experiences and this diversity in contexts, events and ideas to which a firm is exposed leads to a more extensive knowledge base, stronger technological capabilities and more innovative skills than those of firms dealing with a limited number of rivals and customers, i.e., competing in a more restricted national and product markets (Shimizu et al., 2004).

However, as relevance as experience might have in predicting successful M&A transactions, there is some evidence that the relationship between experience and M&A performance is not linear. Haleblian and Finkelstein (1999) found that the effect of acquisition experience is U-shaped: the best performers appeared to be either those without experience – because acquirers did not make an inappropriate generalization error – or those who had a significant amount of experience and have learned to appropriately apply their accumulated knowledge. In an another single-industry study focusing on US bank mergers, Zollo and Singh (2004) come to a crucial insight that firms develop collective competence by not only accumulating experience but also investing time and effort in activities that require greater cognitive effort (particularly in knowledge codification activities) in order to produce enhanced awareness of action-performance linkages. According to these authors "… firms learn directly by articulating and codifying the lessons they learned from previous experiences, even if they might not be aware of the positive learning spillovers from these activities" (Zollo & Singh, 2004, p. 1251).

Apparent relevant relationship between M&A experience and performance notwithstanding, meta-analytical research, on the other side, have shown some evidence that acquirers' M&A experience – among other commonly examined variables – have little effect on the capture of the value creation potential of the deal (King et al., 2004). Furthermore, as stressed by Hitt et al. (2012), M&A experience can lead to capabilities to make effective deals, but care must be taken because managers may attribute the positive and negative outcomes from prior M&As to the wrong factors, thereby increasing the likelihood of value destruction instead of value creation.

2.3.7 The Theory of Relative Standing

In 1985, Robert H. Frank wrote a book entitled *Choosing the Right Pond: Human Behavior and the Quest for Status* in which he advances the concept of **relative standing** as an individual status relative to others in a social setting. As in most social settings, some individuals hold positions of greater status than others, those with lower status only stay if they are compensated in other ways, such as through financial benefits and/or a sense of belonging and acceptance (Frank, 1985).

Extending the theory of relative standing to M&A contexts – i.e., the extent to which acquiring firm's executives behave in a dominant manner toward the taget firm's executives – Hambrick and Cannella (1993) investigated the phenomenon of executive departure, after a merger or an acquisition transaction is consummated. They contend that in these contexts, perceptions of relative standing can change as the proximate social settings is forced to change: acquired executives are placed in a new social setting in which comparisons to their acquirers and their (acquired) prior situation are inevitable and salient (Hambrick & Cannella, 1993).

Once a "big fish in a small pond", the acquired executive may suddenly feel a strong sense of alienation with the beliefs and assumptions of his/her new proximate group, inferior in status to the acquiring top managers, and/or unappreciated by them. These feelings of diminished relative standing can have behavioral consequences, amongst them, shirking, lower commitment to the job, voluntary departure or belligerent attitudes that may lead to involuntary departures (Lubatkin, Schweiger, & Weber, 1999).

In a research aiming at identifying the main sources of cultural risk in M&A transactions, David and Singh (1994), drawing on the work of cultural anthropologists, suggested a similar concept of *relative deprivation*, which they defined as a collectively shared perception that one's social group is faced with a negative discrepancy between legitimate expectations and reality. In M&A contexts, perceived relative deprivation by the target company's member's may result, among other deleterious effects, in lack of commitment in understandings that have been established by "the dominant class", i.e., the acquiring firm's decision makers. According to these authors, relative deprivation and *cultural impact*, which they define as threats to post-acquisition business operations due to imperfectly shared understandings between organizations, are important determinants both of the advisability of engaging in a corporate acquisition and of the post-acquisition strategy an acquiring firm may adopt.

Although Hambrick and Cannella (1993) found an inverse relationship between turnover and acquired executives relative standing – a construct captured by a variety of secondary measures – they found a mixed support for this construct: its importance was mostly pronounced during the first year after the merger, diminished in years two and three and unexpectedly reemerged in year four. They attribute these unexpected results to the archival nature of their data in assessing the conditions that create perceptions of relative standing but

did not gauge the perceptions themselves, suggesting that future investigations use a direct approach to investigate the actual organizational response that accompanies each of the indicators of post acquisition relative standing.

This issue was addressed by Lubatkin et al. (1999), extending Hambrick & Cannella's (1993) work, in an attempt to validate some of their findings by using two perceptual measures of the relative standing of acquired top managers, suggested by Hambrick & Cannella's research: **cultural difference** and **autonomy removal**. Following S. Chatterjee et al. (1992), cultural differences between the top management teams of the merging firms was assessed with a structured perception questionnaire and 29 items, associated with seven cultural dimensions: innovation and action orientation (5 items), risk-taking (5 items), lateral integration (4 items), top management contact (4 items), autonomy and decision making (5 items), performance orientation (3 items), and reward orientation (3 items). Autonomy removal was also assessed with a 23-item structured perception questionnaire. Their major finding was that both constructs (cultural differences and autonomy removal) are significant predictors of acquired firms' executive turnover in the first year of the merger, supporting the theory of relative standing.

The use of executive perceptions regarding cultural differences has been observed in a significant number of empirical research due to its inherent attributes. Perceptions involve how members (from the top management teams) define and interpret situations of organizational life and prescribe the bounds of acceptable behavior, whereas the more tangible aspects of culture – such as reward structures, office layouts, and mission statements, to cite a few – are the surface manifestations of organizational culture. Furthermore, top management executives are selected from the ranks of individuals who best represent the value system of the majority, have major responsibility on the merging firm's ability to realize the synergy potential of the merger, besides having the role of establishing and shaping the culture of their organization (S. Chatterjee et al., 1992; Schein, 1985).

Notwithstanding the fact that in the above mentioned studies, cultural distance has been measured by perceptual scales that capture cultural dimensions at the organizational level, it should be pointed out that cultural dimensions at the national level have strong influence on organizational cultures, either because of the influence of values and beliefs of founders and key executives (Hofstede, 1985), or because of its association with attitudes that affect professional activities (Sirmon & Lane, 2004). Particularly in cross-border M&A transactions, national culture differentials have also been better predictors of stress, negative attitudes toward the merger, and actual cooperation than corporate culture differentials (Weber et al., 1996).

In another stream of research focused on the phenomena of executives departure in M&A contexts, some scholars have attempted to answer the question if the intensity of executive turnover differs in domestic and international M&A activities. From these studies, findings suggest that turnover effects of mergers are intensified in cross-border transactions, and that target company executives tend to depart more quickly when the acquiring firm has already made acquisitions in their country (Krug, 2009; Krug & Hegarty, 2001; Krug & Nigh, 1998, 2001).

2.3.8 Does Cultural Distance Relate With Trust in M&A?

Trust has a pervasive influence in organizational life. Despite a massive body of research on trust and on its many facets and levels, there is not a universally accepted scholarly definition of trust. However, central to most definitions are the notions of risk and vulnerability, ingeniously captured and synthesized by Rousseau, Sitkin, Burt, and Camerer (1998). According to these authors, trust can be defined as "… a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another" (1998, p. 1998).

On the other side, *distrust* can be defined as the polar opposite of *trust*. According to Lewicki, McAllister, and Bies (1998), distrust is defined as "the expectation that others will not act in one's best interest, even engaging in potentially injurious behavior", or as "the expectation that capable and responsive behavior from specific individuals will not be forthcoming".

Extending these concepts to an M&A context, Stahl (2012) contends that trust is crucial in M&A transactions that require substantial interdependence between the merging firms, as is the case of related mergers, where the capture of the expected synergies dictates the need of higher levels of operational integration and greater organizational changes in the acquired firm. Drawing on interorganizational trust research, he proposes a framework, depicted in **Figure 6**, that considers the perceived trustworthiness of the acquiring firm management –

determined by perceived characteristics of the acquiring firm's management (i.e., the trustee) regarding its ability, benevolence, integrity and value congruence – as a mediating variable between a set of status variables (amongst them the cultural distance between the acquiring and target firms) and socio-cultural integration outcomes, which ultimately impacts the post-acquisition performance. As Stahl notes, "cultural distance is thus likely to affect trust not only through perceptions of value congruence, but also because it increases the likelihood that another party is ascribed various negative attributes, such as incompetence, malevolence, or lack of integrity" (Stahl, 2012, p. 13).

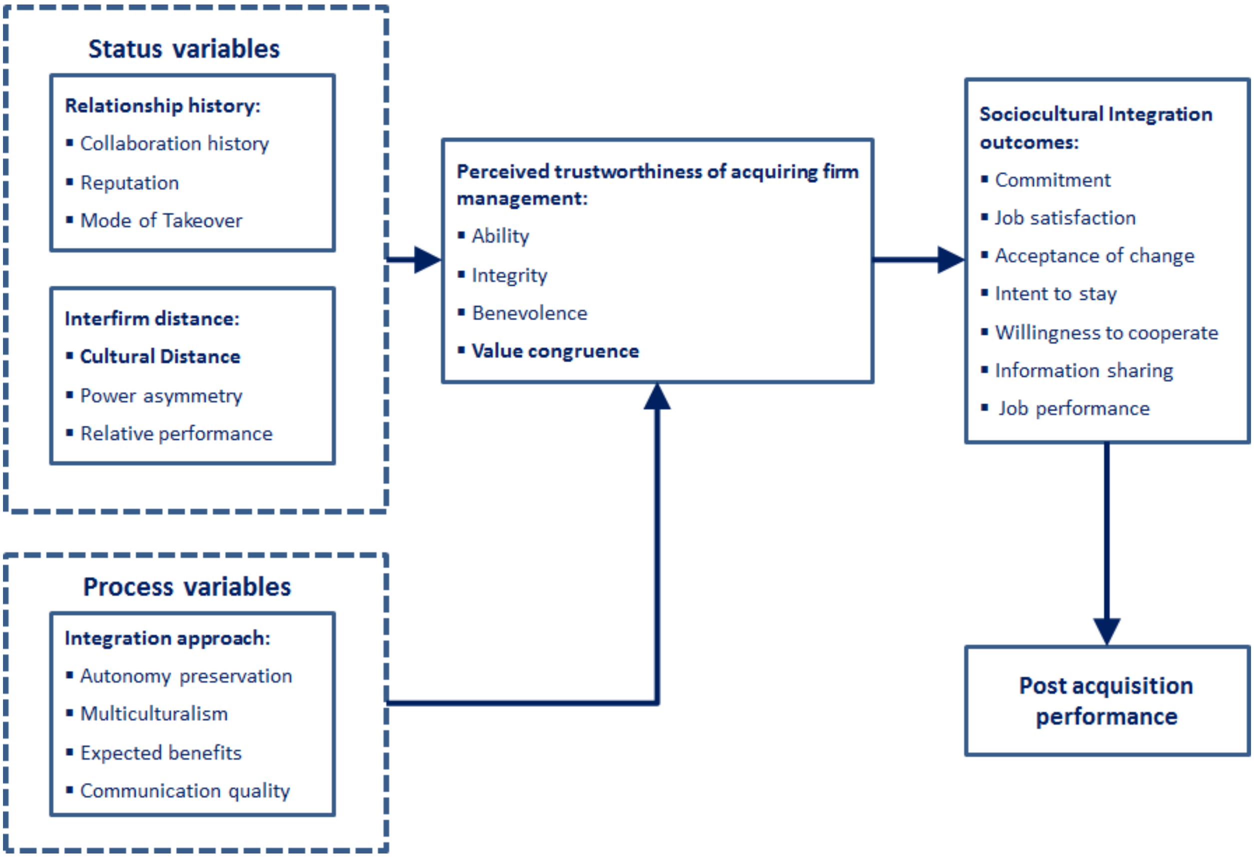

***Figure 6*. Antecedents and consequences of trust in M&A**. Source: Adapted from Stahl (2012).

Consistent to a process perspective on acquisitions (see discussions in **section 2.2.5.1)** and post merger integration research, this framework and findings of empirical studies on trust in M&A in cross-border settings (Chua, Engeli, & Stahl, 2005; Stahl & Köster, 2012) suggest that the extent to which synergies are realized depends on the ability of the acquirer to effectively manage the integration process. Conversely, culture clash-driven lack of trust between members of the merging firms will likely derail the integration process and hamper the transfer of capabilities, resource sharing and learning (Björkman et al., 2007; Vaara et al., 2012).

2.4 Cultural Distance Effects on M&A Performance

Over the last few years, a growing amount of effort has been directed towards the understanding of the cultural dynamics of M&A activities and the impact of cultural differences between acquirer and target firms on post merger outcomes, with a particular focus on cross border M&As.

Despite the eclecticism of this research stream, studies on the performance effects of cultural differences in M&A continue to be dominated by the cultural distance paradigm, whereby cultural distance is commonly measured using Kogut and Singh (1988) index (see discussions in **section 2.1.1.5**), derived from Hofstede's (1980) four cultural dimensions.

In a literature review on the theoretical underpinnings of the role of culture in M&A activities, Stahl (2008) recognizes the convenience of Kogut & Singh's index, but stresses its main drawbacks on the grounds that it masks important information regarding the specific nature of cultural differences. Citing Shenkar (2001), he emphasizes the fact that, by combining Hofstede's cultural dimensions into a composite measure of cultural distance between merging firms, a misleading picture may be provided:

> Two pairs of cultures may have comparable overall cultural distance scores, although they differ on completely different aspects of culture. The impact of the cultural difference in one merger may be bigger because the companies diverge on the more important dimensions. Also the consequence of the difference in one dimension (e.g., uncertainty avoidance) may be compensatory to the difference in another dimension (e.g., performance orientation). An overall notion of cultural distance does not shed any light on the dynamic interplay between different dimensions of cultural differences (Stahl, 2008, p. 435).

According to Stahl (2008), researchers investigating the relationship between cultural distance and M&A performance have been excessively optimistic in assuming that post merger outcomes can be predicted by a composite measure of national culture differences and in isolation from the wider integration process – that is subject to a range of mediating and moderating factors – based on simplistic assumptions about cause-effect relationships, particularly the assumption that cultural distance has a direct causal effect on M&A performance, which partly explain the inconsistent and often contradictory results found in past research focusing on culture-performance relationship.

For example, a positive relationship between cultural differences and M&A performance is found in Morosini et al. (1998) study. Based on the tenets of the resource-based view of the firm and under the assumption that national cultures shape some specific organizational routines and repertoires that are critical to post-acquisition performance, Morosini et al. (1998) test the relationship between national cultural distance and cross-border acquisition performance. Using Kogut & Singh's (1988) multidimensional measure of national cultural distance and controlling for other effects, the authors examine a sample of 52 cross-border acquisitions made by acquirers located in 10 developed countries that took place between 1987 and 1992 and find a positive association between national cultural distance and cross-border acquisition performance – measured by the percentage growth rate in sales over the two year period following the acquisition – highlighting the fact that acquisitions in more culturally distant countries might provide a mechanism for multinational companies to access diverse routines and repertoires which have the potential to enhance the combined firm's performance over time.

In another study, restricted to a sample of 425 cross-border acquisitions made by Indian firms and employing the event study method, Gubbi, Aulakh, Ray, Sarkar, and Chittoor (2010) found a positive relationship between investors reaction and the superior institutional and cultural environment of host countries that carry the promise of higher quality resources and stronger complementarity to existing capabilities of acquiring firms.

These findings contrast with conclusions of an extensive empirical research arguing that cultural distance is likely to lead to cultural "collisions", particularly during the post-acquisition period (Haspeslagh & Jemison, 1991; Larsson & Lubatkin, 2001). Using a sample of 122 large cross-border acquisitions undertaken by American firms between 1978 and 1990, Datta and Puia (1995) also found cultural differences to be negatively associated with the performance of the M&A activities carried out by these firms, a result consistent with Dakessian and Feldmann's (2013) study, considering a sample of acquirers located in Latin America.

A key assumption underlying much of the research that focus on cultural dynamics of M&As and the implications of cultural differences for the post merger integration process is the notion that cultural differences represent a potential obstacle to achieving economic benefits. This cultural distance hypothesis suggests that transaction costs and risks increase as the cultural differences between individuals, groups or organizations increase. However, the growing body of empirical research on the impact of cultural differences on M&A performance has generated inconclusive and contradictory results.

Bearing this aspect in mind and arguing that the culture-performance relationship in M&A is likely to be more complex then suggested by the cultural distance hypothesis, Stahl and Voigt (2008) posit that the contradictory findings observed in previous research may be due to the fact that M&A researchers have not made any distinction between different levels of culture (at national or corporate levels), M&A performance measures (accounting or market-based) and the type of the organization (acquiring or target companies) besides the fact these researchers have paid little attention to the process by which cultural differences affect the performance of firms engaging in M&A activities. In their paper – supported by the cultural fit, acculturation and capital market perspectives as well as by the theoretical underpinnings of social identity, resource-based view and organizational learning theories – Stahl and Voigt (2008) propose an integrative model that link organizational and human resource perspective on M&A integration decisions to concepts drawn from the strategy and finance literatures as their central proposition to gain a better understanding of the mechanisms through which cultural differences affect M&A performance. **Figure 7** schematically depicts the key variables and relationship hypotheses between them (H1, H2, etc.). Dotted arrows indicate moderating effects and P1 and P2 are propositions that could not be tested because of the absence of a sufficient number of past research to allow for a meta-analytic testing.

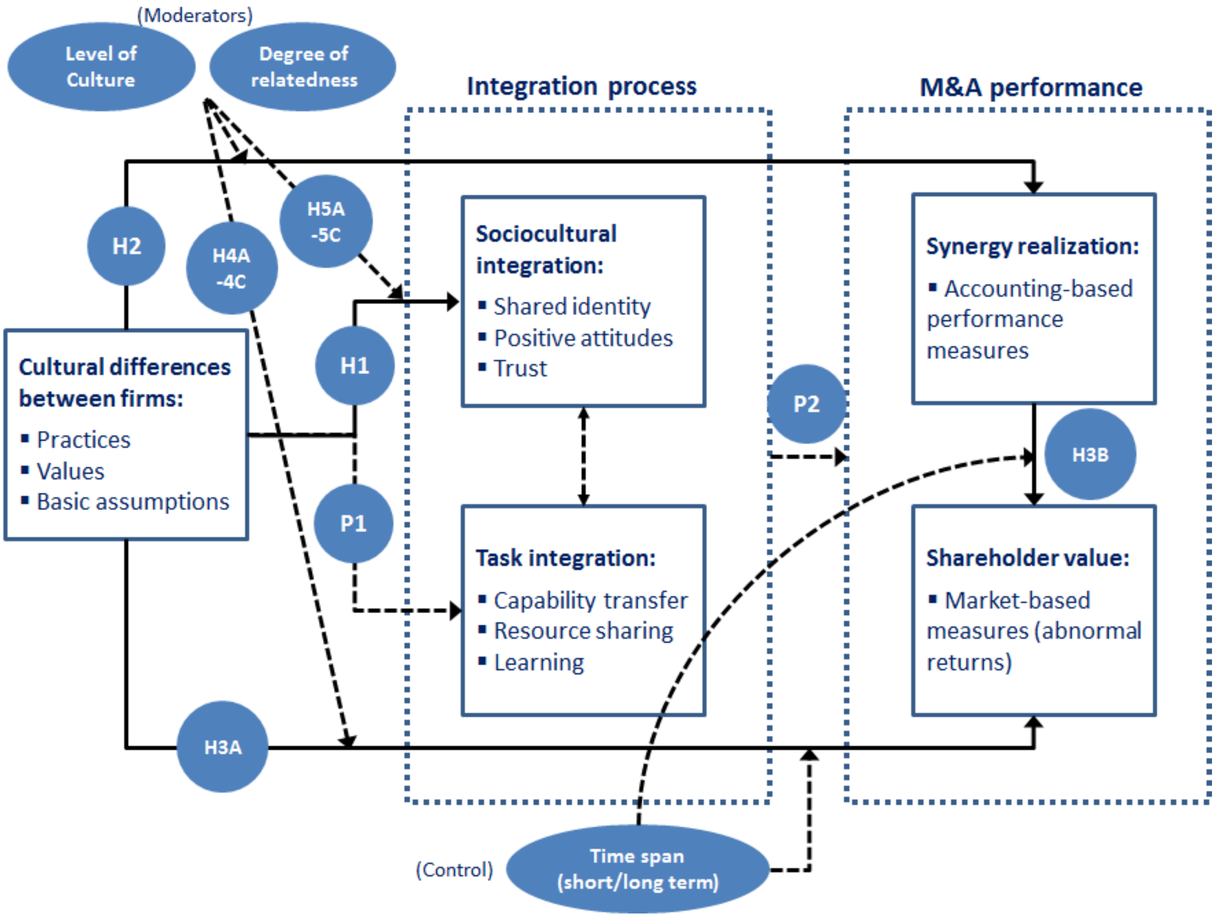

***Figure 7*. Hypothesized impact of cultural differences on M&A performance**. Source: Stahl and Voigt (2008).

Using the meta-analytical method on a sample consisted of 46 studies with a combines sample size of 10,710 M&A observations, these authors found that cultural differences matter in M&A, but they seem to present a "double-edged sword" or a "mixed blessing", which mean that cultural differences may be positively or negatively associated with M&A performance depending on factors that are currently poorly understood. Their main conclusions are as follows:

1. The effects of cultural distance on stock market-based performance measures are sensitive to the time of measurement and whether the focal organization studied is an acquiring or a target firm. Although cultural differences accounted for a substantial proportion of the variance in stock market returns for the acquiring firm's shareholders an inverse and much weaker relationship was found in studies that used samples of target firms. Aggregation of effect sizes across all studies – regardless of whether the sample included acquiring or target firms – **would have resulted in a mean effect size of zero and an erroneous conclusion that stock market returns are unrelated to cultural differences**;

2. Collectively, the meta-analytic results support the conclusion that cultural differences can be both an asset and a liability in M&A, depending on the degree of relatedness and the dimension of cultural differences separating the firms. In related M&As that require higher levels of integration, cultural differences (especially those at the organizational level) can create obstacles to reaping economic benefits by exacerbating sociocultural problems in the post merger integration phase. Alternatively, in M&A that require lower levels of integration, cultural differences (specially those at the national level) were found to be positively associated with integration benefits, without leading to major sociocultural integration problems that can undermine the realization of the expected synergies;
3. Results also points to the complex interactions between cultural differences and aspects of integration design, and the dilemma posed by M&A that require high levels of operational integration: while it may be necessary to fully exploit synergies, the associated sociocultural problems increase the risk of failed implementation and can undermine the realization of synergies (Stahl & Voigt, 2008) .

2.5 Challenging Market Efficiency Hypothesis: A Behavioral View of Investors' Reaction to CBA Announcements

As will become clear in **chapter 4**, this thesis will follow the event study methodology to address the research questions posed in **chapter 1** and to specify the econometric models in order to test the hypotheses formulated in the next chapter.

The event study method is grounded on the theoretical foundation of the efficient market hypothesis (EMH). According to Fama (1970), "a market in which prices always "fully reflect" available information is called efficient"[44], a powerful hypothesis that reflects the notion that the stock market has the ability to see the underlying economic substance of any focal event (Lee & Verbrugge, 1996), and popularly referred to as the *wisdom of crowds* (Surowiecki, 2004).

[44] Corporate finance literature distinguishes three categories of market efficiency, depending upon the nature of the **information set** chosen by market participants: the **weak-form efficiency** which considers an information set that includes only the history of prices and returns; the **semistrong-form efficiency** which considers an information set that includes all information known to all market participants (i.e., publicly available information); and the **strong-form efficiency** for which the information set includes all information known to any market participant, i.e., public **and** private information (Campbell et al., 1997).

To the extent that the event study methodology considers the aggregate outcome of investor reactions as an objective performance measure, researchers tend to neglect the behavioral mechanisms that drive these reactions, a crucial issue given today's unprecedent level of criticism of the EMH and the rapidly growing academic work spanning behavioral finance, strategic management and economic sociology that have systematically challenged the reasoning on which this methodology is based (Schijven & Hitt, 2012).

A vast body of empirical research linked to the behavioral finance field has shown that financial phenomena can be better understood by relaxing the assumption of investor rationality, even in the semistrong-form of market efficiency, suggesting that EMH does not hold[45]. These studies posit that share prices reflect only public information, notwithstanding the fact that information about complex organizational events (here including all phases of M&A activity) are not publicly available. According to scholars linked to this research tradition, investors face considerable information asymmetry, they are boundedly rational and take another's perceptions into account in their decision making process (Barberis & Thaler, 2003; Shleifer, 2000).

In a recent study, building on behavioral theory from management, psychology and economics, and based on a multi-industry sample of 1,616 acquisitions undertaken by 1,125 North American acquirers over the 15-year period from 1990 through 2004, Schijven and Hitt (2012) found considerable empirical support to their hypotheses that investors infer management's perceptions of an acquisition's synergistic potential from the premium that their acquiring companies pays and draw on additional publicly available information – such as industry similarity, payment method, involvement of advisors, the presence or absence of defense tactics employed by the target's management, acquirer's prior performance, acquirer's indebtedness level and acquirer's acquisition experience – to access the reliability of that perception.

In a synthesis, according to the behavioral finance perspective, investors – in contrast to the traditional economic assumption of omniscience and rationality that govern their actions – are at an information disadvantage relative to the management of either the acquiring and the

[45] See Schijven and Hitt (2012) for a representative sample of this literature.

target firms (the problem) and put in place a search process for available information that can help them mitigate their lack of detailed insights on a given M&A deal to base their decision making, a process that management behavioralists dubbed as “problemistic search” (Cyert & March, 1963; March & Simon, 1958).

These theoretical and empirical considerations on investors’ behavior and reaction, in conjunction with the theoretical approaches to the role of culture in M&A will be of great relevance in the formulation and testing of hypotheses as will become clear in **chapters 3** and **4**.

3 HYPOTHESES FORMULATION

At this point it should be clear that, based upon the theoretical streams covered in the previous chapter and the mounting empirical evidence from extant research, culture matters in M&A for several reasons.

First, under the cultural compatibility perspective, the key assumption is that cultural similarity between the merging companies is the key determinant of the post-acquisition integration process outcome (Cartwright & Cooper, 1993). As mentioned elsewhere, it is in this stage of the M&A deal that synergies are realized and the ensuing economic benefits of the merger captured (Haspeslagh & Jemison, 1991) .

Second, under the acculturation perspective, cultural differences between acquiring and target firms may, depending upon how the acquirer's culture is perceived by members of the target firm, end up in acculturative stress, interorganizational conflict and disruption (Nahavandi & Malekzadeh, 1988).

Third, particularly in cross-border settings, social identity theory (Tajfel & Turner, 2004) predicts that the likelihood of in-group bias and out-group derogation tend to increase in situations where the cultural dissimilarities between the merging partners increase.

Fourth, evidence from empirical research employing the capital market perspective leads to a conclusion that cultural differences between acquirer and target firms affect shareholder value by influencing investors' expectations about the expected performance of the merger deal (S. Chatterjee et al., 1992).

Fifth, notwithstanding the fact that the resource-based perspective advocate the idea that cultural differences can be a source of value creation and learning (Barney, 1986, 1988; Morosini, 1998; Morosini et al., 1998), recent research focusing on the mechanisms through which knowledge is transferred between the merging partners, point to a conclusion that the transfer of capabilities, resource sharing and learning can be hampered as the cultural dissimilarities between these organizations widen (Stahl & Voigt, 2008). A similar conclusion emerges from studies that adopt the organizational learning perspective: as cultural differences become significant, the economic benefits stemming from the exploitation of the target's valuable strategic capabilities cannot be captured by the acquiring company (Björkman et al., 2007).

Sixth, extending the theory of relative standing to M&A contexts, as cultural differences between the merging firms increase, it becomes more likely that the relative deprivation phenomenon (David & Singh, 1994) occurs, leading to unexpected losses of human capital and valuable knowledge resources due to voluntary executive departures (Lubatkin et al., 1999).

Finally, recent research that has explored the relationship between cultural distance and trust in M&A contexts has demonstrated that increasing cultural distance between acquiring and target companies is likely to affect trust between members of these firms, leading to adverse impacts on the effective execution of the post-merger integration process (Stahl, 2012).

On the investors' side, as discussed in **section 2.**5, behavioral finance theory shed new light on their behavior in a context of information asymmetry, relaxing the strong market efficiency assumption on which the event study method is grounded. From this perspective, investors are boundedly rational actors that in order to solve their "problemistic search" resort to available information (public and private) to help them mitigate the lack of details on M&A transactions (Schijven & Hitt, 2012), a particular problem if one looks at the characteristics of the target companies sought after by the Multilatinas, the bulk of them being private companies and/or located in countries known by their weak institutions regarding investors' rights protection. Therefore, it is my contention that, under pressure and in order to make an appropriate judgment in a very short time frame on the success potential of a focal M&A deal, investors take into consideration, among other "clues", their perception regarding the cultural and/or psychic distance between the Multilatinas and their targets firms[46].

Based upon on the above listed arguments, my first hypothesis is stated as follows:

[46] As will become clear in the next sections and according to Håkanson and Ambos (2010) findings in their ingeniously designed research, actors close to the corporate world as are managers in general, may perceive differences between countries not only in cultural terms reflected by, for example, in the Hofstede's national cultural dimensions, but also with relation with other aspects such as links that date back to the colonization era, and differences in religion, common language and legal systems. Investors, as managers or as MBA students, are also actors close to the corporate world and, therefore, may externalize the same perceptions of executive MBA students, which have been the focal respondent group for the survey on which their findings were based.

H1: Cultural dissimilarities between the acquirer's home country and the target's host country are perceived by investors as potential barriers to the successful completion of the post-merger integration and the resulting capture of the expected synergies and, therefore, will adversely react to the cross-border acquisition announcements made by Multilatinas. Consequently, abnormal short term returns to their shareholders should be negatively associated with cultural distance.

Furthermore, extant research has shown that firms in countries which are significantly distant along the "uncertainty avoidance" and "power distance" national cultural dimensions, present specific differences in their decision making practices and in their power and control mechanisms. Whereas the first has been associated with a preference for organizational rules and procedures favoring monitoring, planning and control (which positively affect post-acquisition performance), the latter may act as a strong barrier to the effective implementation of the structural changes that acquirers have to accomplish in order to assure the realization of the economic benefits of the merger (Morosini, 1998; Morosini et al., 1998). This later aspect is particularly relevant for Multilatinas acquisitions, keeping in mind that their cross-border M&A activities have been characterized as related "market-seeking" acquisitions (Chudnovsky & López, 1999, 2000; Fleury & Fleury, 2009) where the imposition of the acquirer's business rules, organizational procedures and culture are the necessary conditions to achieve the operational effectiveness requirements (David & Singh, 1994; Walter, 1985).

Based on these arguments, the following hypotheses are formulated:

H2a: The "uncertainty avoidance" dimension positively moderates the relationship between abnormal short term returns to Multilatinas' shareholders and the cultural distance between home and host countries.

H2b: The "power distance" dimension negatively moderates the relationship between abnormal short term returns to Multilatinas' shareholders and the cultural distance between home and host countries.

Extant research and previous discussions (see in particular **section 2.1.2**) also lead to the conclusion that acquirers' investors reaction may also be influenced by other "psychic distance" barriers to the success of a focal M&A deal (Berry et al., 2010; Ghemawat, 2001; Håkanson & Ambos, 2010), which leads to the formulation of the following hypotheses:

> **H3a**: Increasing differences between home and host countries with respect to the "administrative distance" – including differences in colonial ties, language, religion and legal system – are negatively associated with short term returns to acquiring companies' shareholders.

> **H3b**: The geographic distance between home and host countries is negatively associated with short term returns to acquiring companies' shareholders.

4 RESEARCH METHOD AND MODEL SPECIFICATION

4.1 The Event Study Methodology

Event study methodology has been widely used in empirical research, aimed at investigating the effects of economic phenomena on companies' market value. Despite the fact that this method was originally conceived to analyze events related to the corporate finance field, such as the effects of dividend and income announcements or the issuance of new shares, its general applicability has spread to several areas of social sciences.

This study uses the notation and methodological procedures proposed by Campbell et al. (1997), which is considered a reference usually adopted in studies with scopes similar to the proposed herein.

4.1.1 The Cumulative Abnormal Return Concept

Campbell et al. (1997) define abnormal return as the actual *ex post* return of the security over the event window minus the normal return of the firm over the event window. The authors go further and define normal return as the return that would be expected if the event did not take place. In mathematical terms, for a firm i and a given time period t, the abnormal return is defined as follows:

$$\varepsilon_{it}^{*} = R_{it} - E\left[R_{it} \middle| X_t\right] \qquad (2),$$

where ε_{it}^{*}, R_{it} and $E\left[R_{it}\right]$ are, respectively the abnormal, actual and normal (or expected) returns for time period t. X_t is the conditioning information set for the normal return model.

According to these authors, there are two commom choices for modeling normal returns: the *constant-mean* return model, where X_t is a constant and the *market model* – which, following the usual procedure of empirical research with similar scopes – is adopted in this thesis. In the market model X_t is the market return. Whereas the constant mean return model assumes that the mean return of a given security is constant through time, the market model assumes a stable linear relation between the market return and the security return.

4.1.2 The Underlying Assumptions

The utility of the event study method hinges on the assumption that the effect of a certain event will be immediately reflected in the market price of a given asset, causing its economic impact to be observed throughout a relatively short period of time centered on the date of its disclosure (MacKinlay, 1997).

4.1.3 The Mathematical Formulation

The abnormal return for an observation i (a particular cross-border acquisition announcement), and the estimator of its corresponding sample variance are given by the four equations of market model, which are listed below (Campbell et al., 1997):

$$\hat{\boldsymbol{\varepsilon}}_i = \mathbf{R}_i - \hat{\alpha}_i \boldsymbol{\iota} - \hat{\beta}_i \mathbf{R}_m \qquad (3)$$

$$\hat{\sigma}^2_{\varepsilon_i} = \frac{1}{L_1 - 2} \hat{\boldsymbol{\varepsilon}}' \hat{\boldsymbol{\varepsilon}} \qquad (4)$$

$$\hat{\boldsymbol{\varepsilon}}^*_i = \mathbf{R}^*_i - \hat{\alpha}_i \boldsymbol{\iota} - \hat{\beta}_i \mathbf{R}^*_m \qquad (5)$$

$$\mathbf{V}_i = E\left[\hat{\boldsymbol{\varepsilon}}^*_i \hat{\boldsymbol{\varepsilon}}'^*_i \middle| \mathbf{X}^*_i \right] = \mathbf{I} \hat{\sigma}^2_{\varepsilon_i} \qquad (6)$$ [47] ,

where L_1 is the duration of the estimation window, $\hat{\boldsymbol{\varepsilon}}_i$ is an (L_1 x 1) vector of residuals estimated in the estimation window, $\hat{\boldsymbol{\varepsilon}}^*_i$ is an (L_2 x 1) vector of abnormal returns estimated over L_2 days within the event window , $\mathbf{R}^*_i$ is an (L_2 x 1) vector corresponding to actual

[47] This equation is the asymptotic approximation for sufficiently long L_1 length intervals, such as that adopted herein.

returns observed throughout the event window, $\left(\hat{\alpha}_i \quad \hat{\beta}_i\right)'$ are parameters estimated in OLS regressions throughout the estimation window[48], $\boldsymbol{\iota}$ is an (L_2 x 1) unit vector, $\mathbf{R}_m^*$ is an (L_2 x 1) vector that represents the actual returns of the market index, which are observed throughout the event window, $\mathbf{X}_i^*$ is an (L_2 x 2) matrix with a unit vector in the first column and the $\mathbf{R}_i^*$ vector in the second column, $\mathbf{I}$ is the (L_2 x L_2) identity matrix and $\mathbf{V}_i$ is the estimated sample variance, an (L_2 x L_2) square matrix.

Under the assumption of joint normality of $\hat{\boldsymbol{\varepsilon}}_i^*$, and under the null assumption that a certain announcement has a neutral impact on abnormal returns throughout the event window, it can be assumed that:

$$\boldsymbol{\varepsilon}_i^* \sim N\left(\mathbf{0}, \mathbf{V_i}\right) \qquad (7)$$

The cumulative abnormal return car_i and its corresponding sample variance are estimated for each acquisition announcement by equations (8) and (9) below, and, day by day, accumulating the returns estimated by equation (5) throughout the period defined between t_1 and t_2 within the event window:

$$c\hat{a}r_i\left(t_1, t_2\right) = \boldsymbol{\gamma}'\hat{\boldsymbol{\varepsilon}}_i^* \qquad (8),$$

$$\mathrm{Var}\left[c\hat{a}r_i\left(t_1, t_2\right)\right] = \boldsymbol{\gamma}'\mathbf{V}_i\boldsymbol{\gamma} \qquad (9)\,,$$

where $\boldsymbol{\gamma}$ is an (L_2 x 1) vector with elements equal to one between t_1 and t_2 and equal to zero outside this interval.

[48] According to the market model which, as explained in the previous section, assumes a linear relationship between the return of a security and the return of the market portfolio: $R_i = \alpha_i + \beta_i R_m$

For illustration purposes, $\hat{car}_i$ estimated for an 11-day event window would be equivalent to establishing the $d-5$ date for the t_1 parameter and the $d+5$ date for the t_2 parameter, where d represents the announcement date of an international acquisition. In this case, $\boldsymbol{\gamma}$ would be a (11x1) unit vector.

Dakessian and Feldmann (2013) followed this procedure to test the null hypothesis that the average cumulative abnormal return generated by the announcements made by 182 Multilatinas along the period from 1989 through 2011 is not significantly different from zero, under the normality and asymptotic convergence assumptions of the probability distribution of the test statistics (Campbell et al., 1997). They found that, on average, these announcements generated a neutral impact on the short-term returns to acquiring companies' shareholders. This result did not change for a range of event windows with varying durations.

This thesis will go one step further and will focus on the impact of various psychic and cultural distance concepts on the investors' reaction, testing the hypotheses formulated in **chapter 3**. The next section will detail the specification of the econometric models that will allow the accomplishment of this task.

4.2 Econometric Analysis of the Determinants of Investors' Response

4.2.1 Model Specification and Key Assumptions

Taking into consideration that a number of Multilatinas made several acquisitions along the sample period, endogeneity and the omitted variable issues should be addressed in order to assure a consistent estimation of the model parameters.

Accordingly, the linear unobserved fixed effects, unbalanced panel data model is chosen to test the hypotheses formulated in **chapter 3**. The model is specified as follows:

$$car_{it} = \mathbf{x_{it}}\boldsymbol{\beta} + c_i + u_{it} \qquad (10),$$

where car_{it} is the investors' response for the i^{th} announcement, measured by the cumulative abnormal return along the event window centered on time *t*, $\mathbf{x_{it}}$ is the matrix that contain elements related to the control and explanatory variables (as detailed below), $\boldsymbol{\beta}$ is the coefficient vector to be estimated, c_i is the time-invariant, unobserved firm-specific heterogeneity that is allowed to be arbitrarily correlated with elements of $\mathbf{x_{it}}$, and u_{it} is the unobservable idiosyncratic random error. For a consistent and efficient estimation of the parameters, this model is subject to the three common assumptions of a) strict exogeneity of $\mathbf{x_{it}}$, conditional on the unobserved effect c_i, b) rank condition of the $\mathbf{x_{it}}$ matrix that should be equal to the dimension of the $\boldsymbol{\beta}$ vector and c) homoscedasticity of the random error term. See Wooldridge (2002) for a comprehensive theoretical treatment of this model.

Due to the fixed effect (or within) transformation of the data, first, only the time-varying elements contained in $\mathbf{x_{it}}$ are identified[49] and, second, the unobserved effect, c_i, is simply eliminated from the estimation process, a desirable and convenient consequence, to the extent that – in contrast to the random effect estimator – no a priori assumption is required with respect to the correlation between c_i and elements of $\mathbf{x_{it}}$. However, this convenience comes at a cost: the strong homoscedasticity assumption of the random error. Under some circumstances[50], this assumption is severely violated due to presence of serial correlation in the u_{it} term, particularly across observations within a group[51], which leads to inconsistent estimation of the $\boldsymbol{\beta}$ coefficients. One remedial solution, according to Wooldridge (2002), is to resort to fixed effect, generalized least square estimators (FEGLS), as will become clear in discussion of results, under **chapter 6**. FEGLS estimators relax the homoscedasticity assumption, and impose a general format for the covariance matrix of the random error, provided that this matrix is positive definite. These models are thoroughly discussed in Wooldridge (2002) and in Greene (2012).

A more specific version of equation (10) can be considered, partitioning the $\mathbf{x_{it}}$ matrix in two: $\mathbf{x_{1it}}$ and $\mathbf{x_{2it}}$, where the first sub-matrix contains elements related to the cultural and psychic distance variables and interactions and the latter, the remaining control variables.

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[49] Which means that their respective coefficients can be estimated.

[50] It seems that for this present application as well, as will become clear in the results discussions, under **chapter 6**.

[51] In panel data parlance, a group is the entity for which data is collected along the sample period. For example, a particular Multilatina (e.g., Vale, Petrobras, Cemex, etc.) acquiring firm is a group for which information regarding its multiple announcements are collected.

Equation (10) can thus be rewritten as follows:

$$car_{it} = \mathbf{x_{1it}}\boldsymbol{\beta}_1 + \mathbf{x_{2it}}\boldsymbol{\beta}_2 + c_i + u_{it} \qquad (11)$$

For the purpose of simplifying the mathematical representation of the arguments that follow, equation (11) can also be expressed in terms of its specific variables of interest, as far as the hypothses formulated in **chapter 3** are concerned (after dropping the *i* and *t* panel data subscripts, for the the sake of simplification and clarity):

$$car = \beta_{10} + x_{11}\beta_{11} + (x_{11} * uav)\beta_{12} + (x_{11} * pd)\beta_{13} + x_{12}\beta_{14} + x_{13}\beta_{15} + \mathbf{x_{2it}}\boldsymbol{\beta}_2 + c_i + u_{it} \qquad (12)$$

Statistical inferences and hypotheses testing will be carried out taking equation (12) as the base model, where x_{11} repesents the cultural distance between home and host countries, the term $(x_{11} * uav)$ relates to the interaction between cultural distance and *uncertainty avoidance* index (which is specific to the home country), the term $(x_{11} * pd)$ reflects the interaction between cultural distance and *power distance* index (which is also specific to the home country) and the variables x_{12} and x_{13} represent, respectively, the administrative and geographical distance betwee those contries (as defined in the next section), both components of the psychic distance.

If equation (12) is correctly specified, the marginal effect of the cultural distance on the short term return to acquiring firms' shareholders will be given by:

$$\frac{\partial car}{\partial x_{11}} = \beta_{11} + uav\beta_{12} + pd\beta_{13} \qquad (13),$$

which cleary show the moderating effects of the *uncertainty avoidance* and *power distance* indexes.

With the model repesented by the above specified equation (12) in mind, hypotheses **H1** will be supported if $\beta_{11} < 0$ and statistically significant, **H2a** will be supported if $\beta_{12} > 0$ and statistically significant, **H2b** will be supported if $\beta_{13} < 0$ and statistically significant, **H3a** will be supported if $\beta_{14} < 0$ and statistically significant and, finally, **H3b** will be supported if $\beta_{15} < 0$ and statistically significant.

4.2.2 Variables Descriptions and Measurement

4.2.2.1 Dependent Variable

Following Gubbi et al. (2010), the dependent variable in all regressions is the short term return to acquiring companies' shareholders, measured by the cumulative abnormal return along an eleven-day event window (*car_11*), according to equation (8)[52]. Notwithstanding the fact that several constructs have been used to measure M&A performance (see **section 2.2.4** for a detailed discussion), this choice is justified by its widespread use in M&A research (Doukas & Travlos, 1988; Haleblian & Finkelstein, 1999; Markides & Ittner, 1994; Moeller & Schlingemann, 2005). Moreover, *ex ante* short term abnormal returns has been found to correlate well with *ex post* performance (Haleblian et al., 2006; Kale, Dyer, & Singh, 2002), besides being relatively unbiased if compared with other performance measurement such as executive surveys and expert opinions. As emphasized by Cording, Christmann, and King (2008), other nice property of cumulative abnormal returns is its invariance to differences in accounting policies across countries.

In order to account for the effects of alternative measurement options, robustness tests of the model is presented and discussed in next sections, incorporating as a dependent variable the cumulative abnormal returns measured along event windows with varying lengths, as well as other cultural distance constructs drawn from the cross-cultural research literature.

4.2.2.2 Control Variables

A number of control variables are introduced in the model represented by equation (10). The first is the size of the acquiring firm (*lnsize*), measured by the average natural log of total assets, taking the three fiscal years before the announcement year. Following the tradition of

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[52] This variable is also referred to as **car[-5,0,+5]** because of its related event window that, including the announcement day, spans from 5 days before to 5 days after the announcement date.

strategic management and M&A literatures, size matters when it comes to M&A performance issues. In general, big firms have passed through path-depended, capability building and experience accumulation processes that allow them, in comparison with smaller firms, to easily integrate their acquired firms (Gubbi et al., 2010; Hitt et al., 2012; Uhlenbruck, Hitt, & Semadeni, 2006).

The second control variable is the acquirer past performance (*perf*), measured by the average return on equity (ROE) over the three fiscal years previous to the announcement year. The general assumption is that acquiring firm performance displays some inertia, i.e., firms that performed well before an acquisition will continue to display a good performance after the deal (Hitt et al., 2012) besides the fact that empirical research has shown that acquiring firm performance appears to be positively related to acquisition success, suggesting that firms with better financial performance are better acquirers (Haleblian & Finkelstein, 1999; Hitt et al., 2012).

According to the behavioral theory of the firm, organizational researchers have demonstrated the ubiquitous role of the organizational slack on the organization's effectiveness, survival and growth (Bourgeois, 1981), being also a relevant moderator of the internationalization-performance relationship (Lin, Liu, & Cheng, 2011). Following and adapting Burgeois' (1981) organizational slack measurements proposals, the acquirer's financial slack (*slack*) – measured by the average of book value of acquirer's shareholders' equity divided by total assets (Equity/TA), considering the three fiscal years before the announcement year – is the third control variable to enter in the regressions. Its inclusion is justified by the argument that "deep pocket" acquirers, or those with relatively low financial indebtedness, will not have difficulties in amass the necessary resources to carry on the post-merger integration process.

Relative size of the deal (*relsize*) – measured by the value of the target company divided by the book value of the shareholders equity of the acquiring company at the end of the fiscal year preceding the announcement year – is the fourth control variable, on the grounds that the bigger the target in relation to the acquirer, more significant will be its value effects to the acquiring company's shareholders (S. Bhagat, Malhotra, & Zhu, 2011; Hitt et al., 2012). Moreover, big deals should attract more attention and scrutiny from the acquiring company decision makers in the execution of the pre-analysis, negotiation and post merger integration processes.

IB literature has shown the relevance of the real exchange rate effects on the FDI flows. Georgopoulos (2008) found that host country's currency depreciation (or, alternatively the appreciation of the home country's currency) against the US dollar increase he probability of the occurrence of a cross-border acquisition by a foreign company. Accordingly, the fifth control variable (*againstusd*) is the extent to which the real exchange rate of the home country's currency at the announcement date is over or undervalued against the US dollar. It is constructed as a dichotomous variable, assumes the value of one if home country's currency is overvalued with respect to the previous 5-year daily average real exchange rate, and zero otherwise.

The sixth control variable is the extent to which acquirers will seek a controlling interest in target's shareholders' equity (*control*), which will give them the power and legitimacy to conduct the needed organizational and cultural changes in order to assure the realization of the economic potential of the merger, a context common to most of Multilatinas' acquisitions. It is a dichotomous variable, assuming the value of one if the percentage control sought by the acquirer is greater than 50% and equals to zero, otherwise.

As long as the sample period covers a long time span (from 1989 to 2011), a binary variable *post_2000* is also included in order to control for announcement timing effects, i.e., controlling for the differences between past and recent deals. It assumes the value of one if the announcement is made in or after year 2000 and zero otherwise.

Extant research in the IB field, drawing on the institution-based view of strategy, has advocated the notion that the institutional context of host countries determines the entry mode decisions of the acquiring firms. The main idea is that in stronger market-supporting institutional frameworks, acquisitions – in comparison with other entry mode strategies such as joint ventures and greenfield investments – play a more important role in accessing resources that are intangible and organizationally embedded (K. E. Meyer, Estrin, Bhaumik, & Peng, 2009). Following Gubbi et al. (2010), the strength of market-supporting institutional context of host countries with respect to home countries (*ecfreedom*) is the eighth control variable, proxied by using specific components of the *economic freedom index* developed by the Heritage Foundation (The Heritage Foundation, 1995-2011, 2013): *business freedom* (*BF*), *trade freedom* (*TF*), *investment freedom* (*IF*), and *property rights* (*PR*). The *business* *freedom* dimension conveys the concept of the overall burden of regulation, as well as the efficiency of government in the regulatory process. The *trade freedom* component reflects the absence of tariff and non-tariff barriers that affect imports and exports of goods and services. The *investment freedom* component inspects the countries' policies toward the free flow of investment capital (FDIs and internal capital flows as well). The property rights dimension assesses the ability of individuals to accumulate private property, secured by laws that are fully enforced by the state. Adopting the procedure proposed by Gubbi et al. (2010), an auxiliary economic freedom index (*EFI*) is calculated according to the following equation:

$$EFI_{H,h} = \frac{1}{4}\left(\frac{BF_h}{BF_H} + \frac{TF_h}{TF_H} + \frac{IF_h}{IF_H} + \frac{PR_h}{PR_H}\right) \qquad (14),$$

where h and H subscripts designate, respectively, the host and home countries. A binary control variable *ecfreedom* is determined as follows: it equals to one if $EFI_{H,h} > 1$ and zero, otherwise.

As economic and financial conditions prevailing in home and host countries vary each year and may significantly affect M&A activity and investors' expectations, year fixed effects are controlled for in all regressions[53].

4.2.2.3 Explanatory Variables

In **section 2.1.1.2** it has been emphasized the role and relevance of national culture in M&A activities, particularly in cross-border settings and in other contexts covered in the IB literature. As previously stated, and following the significant number of empirical research in culture-M&A performance research, cultural distance (perceived by investors) in this study is proxied by Hofstede's four national cultural dimensions – *power distance* (*pd*), *individualism-collectivism* (*ind*), *masculinity-feminity* (*mas*) and *uncertainty avoidance* (*uav*) – employing a combination method proposed by Kogut and Singh (1988) and illustrated by equation (1), as follows:

[53] An attempt to control for industry time-invariant, fixed effects is useless in fixed-effects panel data models because they cannot be identified (see model specification in **section 4.2.1**). This fact will not invalidate the results of the regressions, as the interest is centered in determining the effects of cultural and psychic distance variables on investors' reaction to Multilatinas' CBA announcements.

$$cdis\_hof_{H,h} = \frac{1}{4}\left[\frac{(pd_H - pd_h)^2}{V_{pd}} + \frac{(ind_H - ind_h)^2}{V_{ind}} + \frac{(mas_H - mas_h)^2}{V_{mas}} + \frac{(uav_H - uav_h)^2}{V_{uav}}\right] \quad (15),$$

where $cdis\_hof_{H,h}$ represents the cultural distance between the acquirer's home (subscript *H*) and target's host (subscript *h*) countries and V_i is the variance of the i^{th} dimension. Data related to these four cultural dimensions were collected from Geert Hofstede's web site (Hofstede).

Addressing the calls from scholars in the IB and cross-cultural research, cultural distance index alone may not explain a significant proportion of the variance of the depended variables and should be used in conjunction with other regressors related to the investors' "psychic" distance perceptions (Dow & Karunaratna, 2006; Håkanson & Ambos, 2010). Two psychic distance explanatory variables are incorporated into the regressions: the administrative distance between acquirer's home and target's host countries (*BGZ_adm*) and the geographic distance (*lnBGZ_geo*) between them, both proposed by Berry et al. (2010) and made available by these authors to managers and scholars in a web site[54]. The former measures the Mahalanobis distance[55] considering four dimensions (differences in colonial ties, language, religion and legal system) and the latter, the physical distance between the countries according to the coordinates of their geographic center.

Table 7 summarizes the description and measurement procedures of all control and explanatory variables incorporated in the models.

[54] Available at http://lauder.wharton.upenn.edu/ciber/faculty_research.asp.

[55] In contrast to the Euclidean distance measurement method, the Mahalanobis method is conceptually more robust as it takes into consideration the correlations among the several dimensions, the variance of these dimensions, besides allowing for different scales in measuring those dimensions. See **Table 4** in Berry et al. (2010, p. 1469) for an overview of the properties of Euclidean, Euclidean Squared and the Mahalanobis methods of calculating dyadic distances.

Table 7

Variables Description and Measurement

Control Variables	Description
lnsize	Size of the acquiring firm, measured as the average of the natural log of total assets, considering the three fiscal years before the announcement year.
perf	Performance of the acquiring firm, measured as the average return on shareholders' equity (ROE), considering the three fiscal years before the announcement year.
slack	Financial slack of the acquiring firm, measured as the average of book value of shareholders' equity divided by total assets (Equity/TA), considering the three fiscal years before the announcement year.
relsize	Relative size of the deal, measured as the value of the target company divided by the book value of shareholders' equity of the acquiring company at end of the fiscal year preceding the announcement year.
againstusd	Binary variable that equals one if the real exchange rate of the home country's currency at the announcement date is overvalued against the US dollar, considering the previous 5-year daily average real exchange rate and equals to zero otherwise.
control	Binary variable that equals to one if the percentage control sought by the acquirer in the target company is greater than 50% and equals zero otherwise.
post_2000	Binary variable that equals to one if the announcement is made in or after year 2000 and zero otherwise.
ecfreedom	A binary variable based on the four institutional dimensions calculated by the Heritage Foundation (The Heritage Foundation, 1995-2011): *Business Freedom*, *Trade Freedom*, *Investment Freedom* and *Property Rights*.The combination procedure of these four dimension follows Gubbi et al. (2010), according to equation (14). It equals to one if *EFI>1* (i.e., the host country has a more developed institutional framework than the home country) and zero otherwise.

(continue)

Table 7 (continued)

Variables Description and Measurement

Explanatory Variables	Description
cdis_hof	Cultural distance between host and home countries, based on the four Hofstede's (Hofstede, 1997) cultural dimensions: Power Distance, Individualism, Masculinity/Feminity and Uncertainty Avoidance, using a combination methodology proposed by Kogut & Singh (1988), according to equation (15). Data were retrieved from the author's web site at http://geert-hofstede.com.
BGZ_adm	Administrative distance between acquirer's home and target's host countries, measured by the Mahalanobis method, according to Berry et al. (2010), comprising four dimensions: differences in colonial ties, language, religion and legal system. Data were retrieved from the authors' web site at http://lauder.wharton.upenn.edu/ciber/faculty_research.asp.
lnBGZ_geo	Geographical distance between acquirer's home and target's host countries, measured by the natural log of the physical distance between the countries according to the coordinates of their geographic center, according to Berry et al. (2010). Data were retrieved from the authors' web site at http://lauder.wharton.upenn.edu/ciber/faculty_research.asp.

Note. Source: elaborated by the author.

5 SAMPLE CHOICE AND DATA SOURCES

5.1 Sample Description

The focus in this thesis is on the Multilatinas, in particular the assessment of their M&A activity performance, measured as investors' reaction to the announcements of their cross-border acquisitions, as well as the identification of the factors that might explain the intensity and direction of these reactions.

The extant literature that addresses similar research questions usually focus on samples of acquirers located in developed economies. Those that focus their analysis on EMNEs, consider heterogeneous samples of acquisition announcements made by acquirers headquartered in regions (East Asia and Latin America, for example) that have shown significant differences regarding the evolutionary path of their national innovation and production systems (Cimoli, Dosi, & Stiglitz, 2010).

The evolutionary paths of national systems of innovation are the outcome of, among other factors, choices made by governments regarding the economic and industrial policies. They also shape the of countries' location advantage (or L advantage) which, in turn, interact with and constrain domestic firms' firm specific advantages (or O advantages) (Narula, 2011; Narula & Dunning, 2000; Narula & Nguyen, 2011) and the strategic spaces in which they can be positioned (Rugman, 2008).

These are the main arguments that justify the decision to restrict the sample to Latin American home countries which also underwent similar economic reforms – with inward-looking state-led import-substituting industrialization (ISI) policies dominating until 1980s, followed by the implementation of pro-market reforms starting in the 1980s and 1990s (Dau, 2012) – in contrast with East Asian countries that, since the 1960s, have adopted more flexible, new capability-building strategies, following a "flying-geese" pattern of production and upgrading (Palma, 2010).

Sample data was determined by a accessibility criterion, covering publicly-held Multilatinas for which detailed information about their cross-border acquisitions were available in the *Thomson Financial* database and the time series of stock and market index prices would be available in the *Economatica* database, which also provided the economic and financial data related to the acquiring firms, entered into the regressions as control variables. **Table 8** presents the characteristics of each home country, and some statistics that show the diversity and intensity of the M&A activity carried out by their respective acquiring firms. On average, each acquiring firm made 3.3 announcements, with some cases where this number outstrips the 20 threshold, as is the case of the Brazilians Vale (24) and Petrobras (30) and the Mexicans America Movil (22), Telmex (29) and Cemex (34). Brazil and Mexico, the two biggest economies in the region account for almost two thirds of the total number of announcements.

Table 8

Home Countries and M&A Activity Intensity and Diversity Statistics

Country	**Market Index**	**Industries Represented[1]**	**Number of Acquiring Firms**	**Number of Observations**	**Average Number of Announcements**
Argentina	MERVAL	11	16	38	2.4
Brazil	IBOVESPA	35	53	186	3.5
Chile	IPSA	26	37	102	2.8
Colombia	IGBC	10	13	43	3.3
Mexico	INMEX	27	46	205	4.5
Peru	IGBVL	9	13	22	1.7
Venezuela	IBC	4	4	6	1.5
All Countries		**74**	**182**	**602**	**3.3**

Note. Source: elaborated by the author.
[1] In which acquiring firms compete.

5.2 The Industry and Country Views of Multilatinas' CBA Announcements

Table 9 details the acquirers characteristics in terms of their location and the industry in which they compete, coded according to the four-digit NAICS criteria. Industries were sorted in decreasing order of the number of observations. Twelve industries out of 74 (16%), comprise two thirds of all announcements, due to the acquisitive prowess of some particular Multilatinas, such as America Movil and Telmex (from Mexico) in telecommunications;

Ambev (from Brazil), Bavaria (from Colombia), Embotelladora Andina (from Chile) and Coca-Cola FEMSA (from Mexico) in beverage manufacturing; Cemex (from Mexico) in cement and concrete product manufacturing; Banco do Brasil (from Brazil) in depository credit intermediation; Tenaris and Ternium (from Argentina) and Gerdau (from Brazil) in steel products manufacturing; Petrobras (from Brazil) in oil and gas extraction; Vale (from Brazil) in metal ore mining; AES Gener, Endesa, Enersis (from Chile) and Interconexión Electrica (from Colombia) in electric power generation, transmission and distribution; and Grupo Bimbo (from Mexico) in bakeries and tortilla manufacturing.

Table 9

Home Country and Industry View of Multilatinas' CBA Announcements, in Decreasing Order of the Number of Observations

NAICS Code[1]	Industry	ARG	BRA	CHL	COL	MEX	PER	VEN	Total
517	Telecommunications		1	3		53			**57**
3121	Beverage Manufacturing	1	13	13	9	10	1	1	**48**
3273	Cement and Concrete Product Manufacturing			2	3	41	1		**47**
5221	Depository Credit Intermediation	4	17		7	12	4	1	**45**
3312	Steel Product Manufacturing from Purchased Steel	13	21	5		1			**40**
211	Oil and Gas Extraction	8	31						**39**
2122	Metal Ore Mining		24	4		1	4		**33**
2211	Electric Power Generation, Transmission and Distribution		5	14	7			2	**28**
551	Management of Companies and Enterprises		6			7	3		**16**
3118	Bakeries and Tortilla Manufacturing					15			**15**
3116	Animal Slaughtering and Processing		14						**14**
5151	Radio and Television Broadcasting					14			**14**
4529	Other General Merchandise Stores			8		4			**12**
3259	Other Chemical Product and Preparation Manufacturing					10			**10**
4811	Scheduled Air Transportation		1	8					**9**
2212	Natural Gas Distribution	1		2	6				**9**
5259	Other Investment Pools and Funds			9					**9**
3113	Sugar and Confectionery Product Manufacturing		1	1	6				**8**
3119	Other Food Manufacturing					5	2		**7**
3112	Grain and Oilseed Milling					6			**6**
3221	Pulp, Paper, and Paperboard Mills			5		1			**6**
3321	Forging and Stamping		5			1			**6**
5415	Computer Systems Design and Related Services	2		4					**6**
2361	Residential Building Construction		2	1			2		**5**
3251	Basic Chemical Manufacturing		5						**5**
3336	Engine, Turbine, and Power Transmission Equipment Manufacturing		5						**5**
3363	Motor Vehicle Parts Manufacturing		5						**5**
4521	Department Stores		1			4			**5**

(continue)

Table 9 (continued)

Home Country and Industry View of Multilatinas' CBA Announcements, in Decreasing Order of the Number of Observations

NAICS Code[1]	Industry	ARG	BRA	CHL	COL	MEX	PER	VEN	Total
3115	Dairy Product Manufacturing		1				3		**4**
3162	Footwear Manufacturing		4						**4**
3272	Glass and Glass Product Manufacturing			1		3			**4**
3399	Other Miscellaneous Manufacturing		2	2					**4**
4831	Deep Sea, Coastal, and Great Lakes Water Transportation			4					**4**
446	Health and Personal Care Stores			3					**3**
1111	Oilseed and Grain Farming					3			**3**
3334	Ventilation, Heating, Air-Conditioning, and Commercial Refrigeration Equipment Manufacturing		3						**3**
3341	Computer and Peripheral Equipment Manufacturing		2			1			**3**
3362	Motor Vehicle Body and Trailer Manufacturing		3						**3**
4244	Grocery and Related Product Merchant Wholesalers	3							**3**
5223	Activities Related to Credit Intermediation				2	1			**3**
5311	Lessors of Real Estate	3							**3**
5413	Architectural, Engineering, and Related Services					3			**3**
6211	Offices of Physicians			3					**3**
7221	Full-Service Restaurants					3			**3**
2123	Nonmetallic Mineral Mining and Quarrying			2					**2**
2213	Water, Sewage and Other Systems		2						**2**
3255	Paint, Coating, and Adhesive Manufacturing							2	**2**
3311	Iron and Steel Mills and Ferroalloy Manufacturing			2					**2**
3322	Cutlery and Handtool Manufacturing					2			**2**
3332	Industrial Machinery Manufacturing		2						**2**
4238	Machinery, Equipment, and Supplies Merchant Wholesalers						2		**2**
5232	Securities and Commodity Exchanges		1		1				**2**
5239	Other Financial Investment Activities			1	1				**2**

(continue)

Table 9 (continued)

Home Country and Industry View of Multilatinas' CBA Announcements, in Decreasing Order of the Number of Observations

NAICS Code[1]	Industry	ARG	BRA	CHL	COL	MEX	PER	VEN	Total
5251	Insurance and Employee Benefit Funds			2					**2**
447	Gasoline Stations			1					**1**
1113	Fruit and Tree Nut Farming	1							**1**
1119	Other Crop Farming	1							**1**
1132	Forest Nurseries and Gathering of Forest Products			1					**1**
3132	Fabric Mills		1						**1**
3152	Cut and Sew Apparel Manufacturing		1						**1**
3219	Other Wood Product Manufacturing		1						**1**
3222	Converted Paper Product Manufacturing			1					**1**
3256	Soap, Cleaning Compound, and Toilet Preparation Manufacturing		1						**1**
3261	Plastics Product Manufacturing		1						**1**
3323	Architectural and Structural Metals Manufacturing					1			**1**
3329	Other Fabricated Metal Product Manufacturing		1						**1**
3331	Agriculture, Construction, and Mining Machinery Manufacturing	1							**1**
3339	Other General Purpose Machinery Manufacturing					1			**1**
3364	Aerospace Product and Parts Manufacturing		1						**1**
4232	Furniture and Home Furnishing Merchant Wholesalers					1			**1**
4234	Professional and Commercial Equipment and Supplies Merchant Wholesalers					1			**1**
5231	Securities and Commodity Contracts Intermediation and Brokerage				1				**1**
5321	Automotive Equipment Rental and Leasing		1						**1**
5612	Facilities Support Services		1						**1**
	Total	**38**	**186**	**102**	**43**	**205**	**22**	**6**	**602**

***Note*.** Source: elaborated by the author.
[1] NAICS stands for North American Industry Classification System.

5.3 The Timing of the CBA Announcements

Table 10 shows, by home country, the timing of the 602 cross-border acquisition announcements from 1989 to 2011. Three quarters of announcements were made after 1999, a period in which Multilatinas aggressively accelerated their growth toward foreign markets.

As mentioned elsewhere, timing differences and specificities of pro-market reforms explain the relative lag of the internationalization process of Brazilian firms. As shown in **Table 10**, the bulk of acquisition announcements of Brazilian firms occurred between 2006 and 2010, in contrast with the Chilean case that started its internationalization process much earlier.

Table 10

Timing of Multilatinas' CBA Announcements

	Acquiring Firm's Home Country							
Year of Announcement	**ARG**	**BRA**	**CHL**	**COL**	**MEX**	**PER**	**VEN**	**Total**
1989	0	1	0	0	0	0	0	**1**
1990	0	1	0	0	0	0	0	**1**
1991	0	1	0	0	0	0	0	**1**
1992	0	5	1	1	2	0	1	**10**
1993	1	1	0	0	2	0	1	**5**
1994	1	1	5	0	12	0	0	**19**
1995	3	8	5	2	3	0	0	**21**
1996	1	1	2	0	6	2	1	**13**
1997	1	2	4	0	9	2	0	**18**
1998	5	2	6	2	16	1	0	**32**
1999	0	3	10	0	16	1	0	**30**
2000	1	7	8	1	15	2	1	**35**
2001	0	4	3	2	16	0	0	**25**
2002	0	4	2	4	12	1	0	**23**
2003	3	6	2	1	11	1	0	**24**
2004	3	7	2	1	10	1	0	**24**
2005	1	6	3	1	8	1	0	**20**
2006	3	18	3	7	16	1	2	**50**
2007	2	25	16	3	14	0	0	**60**
2008	6	24	5	3	14	2	0	**54**
2009	6	30	25	15	11	7	0	**94**
2010	1	21	0	0	9	0	0	**31**
2011	0	8	0	0	3	0	0	**11**
Total	38	186	102	43	205	22	6	**602**

Note. Source: elaborated by the author.

5.4 Descriptive Statistics and the Pairwise Correlation Matrix

Table 11 depicts some characteristics of the data. Multilatinas in this sample are large companies measured by total assets. Average size of the acquiring firm is close to US$ 16.0 billion (based on the untransformed, original data), with significant variance between countries due to differences in the mix of industries in which they compete (excluding the big Brazilian banks, the average size shrinks to US$ 5.7 billion). They are relatively profitable, generating average returns on equity (ROE) of 19%, 45% of their total assets are financed by shareholders' equity and they are, on average, five times bigger than their targets.

Table 12 presents the descriptive statistics and the pairwise correlation matrix with their associated significance level, from which some interesting characteristics of the sample data emerge.

First, average cumulative abnormal returns to acquiring firms' shareholders is zero, a result that was already found and statistically tested in Dakessian and Feldmann (2013), which means that CBA announcements neither created nor destroyed economic value to acquirers' shareholders.

Second, the CBA announcements (a percentage close to 84%) were preponderantly made at a time when the currencies of acquiring firms' home countries were overvalued against the US dollar, which lands some support to the common notion that contexts where home countries currency is overvalued make foreign assets acquisitions appear "cheap".

Third, the bulk of the announcements (close to 80%) sought a majority equity control in target firms, a necessary condition to facilitate the target's integration process.

Fourth, a fraction slightly more than half of the announcements (56%) targeted firms in host countries where institutional frameworks are more developed when compared with aquiring firms home countries'.

Fifth, host countries geographically far away home countries are significantly distant in terms of Berry et al. (2010) concept of "administrative distance" (correlation coefficient $\rho = 0.4072$

and significant) but not necessarilly in cultural terms ($\rho = 0.0473$ and not significant). However, host countries with more developed institutional frameworks are associated with culturally close countries, given the comparatively high and significant correlation coefficient ($\rho = 0.4735$)[56].

[56] It is acknowledged that Pearson correlation, as presented in **Table 12**, cannot be used to estimate the correlation between categorical and continuous variables. However, the way that such coefficients are determined can give a sense of direction of the association of those variables. Hence, announcements for which *ecfreedom* is one (i.e. related to institutionally more developed host countries) are associated with culturally distant home countries, i.e., with higher values for the continuous variable *cdis_hof*.

Table 11

Sample Data

	Acquiring Firm's Home Country							
Variables	**Argentina**	**Brazil**	**Chile**	**Colombia**	**Mexico**	**Peru**	**Venezuela**	**All Firms**
Size[a]								
Mean	7.630	8.990	6.965	7.780	8.318	6.077	7.400	**8.122**
SD	1.653	2.116	1.519	0.552	1.474	1.505	2.421	**1.886**
Skewness	-1.066	-0.350	-0.147	0.054	-0.588	-0.151	-1.049	**-0.102**
Kurtosis	3.251	2.401	2.456	3.552	2.507	2.543	2.254	**2.749**
ROE (in %)								
Mean	0.139	0.289	0.137	0.101	0.170	0.120	0.070	**0.192**
SD	0.086	1.232	0.158	0.069	0.124	0.135	0.046	**0.699**
Skewness	1.064	12.912	4.119	0.904	-0.432	-1.182	1.588	**22.405**
Kurtosis	3.293	173.219	25.977	3.962	6.898	4.827	3.840	**531.659**
Slack (Shareholders' Equity/TA)								
Mean	0.457	0.372	0.493	0.614	0.467	0.413	0.630	**0.448**
SD	0.150	0.160	0.174	0.249	0.158	0.220	0.358	**0.183**
Skewness	-0.494	-0.339	-0.081	-0.682	0.468	-0.454	-1.100	**0.077**
Kurtosis	3.008	2.778	2.964	2.859	3.312	1.835	2.296	**3.154**
Relative Deal Size								
Mean	0.119	0.245	0.206	0.157	0.172	0.206	0.076	**0.194**
SD	0.199	0.789	0.471	0.235	0.502	0.236	0.124	**0.555**
Skewness	2.410	4.989	4.325	2.272	6.777	1.129	1.081	**6.266**
Kurtosis	8.861	28.933	23.228	7.803	55.895	2.998	2.269	**48.534**

Note. Source: elaborated by the author.
[a] 3-year average ln (total assets); total assets in US$ million. TA = Total assets; ROE = Return on shareholdes' equity

Table 12

Descriptive Statistics and Pairwise Correlation Matrix[a]

Variable	Obs	Mean	Std. Dev.	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
[1] car_11	602	0.0000	0.0930	1.0000											
[2] lnsize	547	8.1225	1.8859	0.0269	1.0000										
[3] perf	595	0.1923	0.6990	0.0341	-0.0674	1.0000									
[4] slack	547	0.4478	0.1826	0.0302	**-0.3877**	-0.0154	1.0000								
[5] relsize	377	0.1940	0.5555	-0.0821	**-0.1844**	0.0750	0.0067	1.0000							
[6] againstusd	601	0.8386	0.3682	-0.0662	0.0422	0.0304	-0.0047	0.0489	1.0000						
[7] control	423	0.7896	0.4081	-0.0100	-0.0154	-0.0922	0.0748	**0.1166**	0.0589	1.0000					
[8] post_2000	602	0.7492	0.4339	-0.0216	**0.1988**	-0.0456	**-0.2247**	0.0472	0.0501	**0.2096**	1.0000				
[9] ecfreedom	601	0.5557	0.4973	-0.0623	**0.1665**	0.0349	-0.0712	0.0769	0.0076	0.0328	-0.0315	1.0000			
[10] cdis_hof	571	1.2109	1.0796	-0.0423	0.0183	-0.0338	0.0706	**0.1213**	0.0066	-0.0041	-0.0162	**0.4735**	1.0000		
[11] BGZ_adm	601	15.0392	10.3274	0.0374	**0.2588**	0.0596	**-0.1914**	0.0714	0.0089	0.0159	**0.0949**	**0.1632**	**0.1298**	1.0000	
[12] lnBGZ_geo	601	8.2090	0.7785	-0.0012	**0.2326**	0.0300	**-0.1840**	0.0238	-0.0150	0.0244	0.0781	**0.1849**	0.0473	**0.4072**	1.0000

Note. Source: elaborated by the author.
[a] Bold figures denote significant correlations at .05 significance level.

6 RESULTS

Table 13 illustrates the results from the fixed effects panel data regressions. **Model I** consider all control and explanatory variables, including the interaction terms *uav_cdis_hof* and *pdi_cdis_hof*. The former reflects the interaction between the *uncertainty avoidance* index and the composite cultural distance index, based on Hofstede's four national cultural distance dimensions. The latter captures interaction between the *power distance* index and the same composite cultural distance index. Due to the presence of a significant number of missing values, a sub-sample of only 261 observations, out of 602 that comprise the original data set, is considered in this model.

Notwithstanding this limitation, some interesting aspects emerge. First, amongst all control variables, only acquiring firm size and the deals' relative size are significant and with signs in unexpected directions: the larger the acquiring firm and the deal the size the more negative becomes investors' reaction.

Second, the coefficient of the *cdis_hof* variable is negative and significant, which confirms that hypothesis **H1** is supported: the higher the cultural distance between the home and host counties, the more negative becomes the investors' reaction to the Multilatinas' cross-border acquisition announcements.

Third, as the coefficient of the *uav_cdis_hof* is positive and significant, hypothesis **H2a** is also supported, suggesting a positive moderator affect of the home country-specific *uncertainty avoidance* index on the relationship between cultural distance and the short term return to acquiring firms' shareholders.

Fourth, contrary to the expectation of a negative moderating effect of the home country-specific *power distance* index, hypothesis **H2b** is not supported, as the null hypotheses that the coefficient of the *pdi_cdis_hof* variable is not different from zero cannot be rejected.

Fifth, none of the psychic distance related variables (*BGZ_adm* and *lnBGZ_geo*) showed any statistically significant effect on investors' reaction, also implying that hypotheses **H3a** and **H3b** cannot be supported by the data.

Sixth, a rather high *Rho* parameter (0.7107) denotes that the firm-specific component of the error (c_i) is much more relevant than the idiosyncratic error (u_{it}), implying a high intraclass correlation effect, which may be an indication of the presence of a serial correlation in the error term, thus violating the homoscedasticity assumption[57]. The specification of alternative fixed-effects models will be required, as discussed below.

To the extent that the presence of a significant number of missing values cases, particularly in the *relsize* variable (which severely shrinks the sample size) and due to the fact that the control variables (except *lnsize*) – and those related to the psychic distance construct as well – are not statistically significant, a **Model II** is built as a simplified version of **Model I** and it is used to test the hypotheses on a much bigger sample size (517 observations), confirming that cultural distance matters – i. e., direction and intensity that is theoretically predicted, giving support to hypothesis **H1** – but the moderating effects of the *uncertainty avoidance* and *power distance* indexes are not, in this model, statistically significant.

Model III is an extended version of **Model II**, incorporating the variables related to the psychic distance concept. The net effect is that the addition of these variables strengthened the significance of the cultural distance effect as well as the moderating effect of the *uncertainty avoidance* index, giving more confidence to the outcomes of **Model I** and to the endorsement of hypotheses **H1** and **H2a**. **Model III** is run using two estimators of the covariance matrix of the error term (columns 7 and 8): the first being the standard estimation of this matrix – from which the above statistical inference is made – and the second corresponds to the cluster-adjusted, heteroskedasticity-robust standard error estimation procedure, which leads to a more consistent estimation procedure of this model parameters. This estimator, on average, inflates standard error estimates of the *cdis_hof* and *uav_cdis_hof* by 17%, making them still significant, although at a higher significance level, which implies an adverse effect of the presence of a serial correlation in the error term[58].

[57] In fact, a modified Wald test for groupwise heteroskedasticity strongly rejects the null hypothesis of homoscedasticity. This procedure is executed in Stata/IC, version 13.1, through the postestimation command *xttest3*.

[58] The same modified Wald test for groupwise heteroscedasticity still strongly rejects the null hypothesis of homoscedasticity.

Table 13

Effects of Cultural Distance on Investors' Reaction to Cross-Border Acquisition Announcements; car[-5,0,+5] is the Dependent Variable

	Model I, FE		Model II, FE		Model III, FE			Model III, FEGLS	
	Coefficient	**SE**	**Coefficient**	**SE**	**Coefficient**	**SE**	**Robust SE**[1]	**Coefficient**	**SE**[2]
Control variables									
lnsize	-0.0402 **	0.0184	-0.0262 *	0.0123	-0.0270 *	0.0123	0.0187	0.0052 **	0.0017
perf	0.1008	0.0780							
slack	-0.0700	0.1017							
relsize	-0.0458 ***	0.0102							
againstusd	0.0027	0.0220							
control	0.0088	0.0168							
post_2000	0.0395	0.0789							
ecfreedom	0.0008	0.0173	-0.0082	0.0114	-0.0069	0.0115	0.0109	-0.0074	0.0059
Expl. variables									
cdis_hof	-0.3275 †	0.1750	-0.1579 †	0.0954	-0.2196 *	0.0993	0.1153	-0.1403 *	0.0568
uav_cdis_hof	0.0039 †	0.0022	0.0018	0.0012	0.0025 *	0.0012	0.0014	0.0016 *	0.0007
pdi_cdis_hof	0.0002	0.0041	0.0011	0.0022	0.0031	0.0025	0.0022	0.0012	0.0016
BGZ_adm	0.0009	0.0007			0.0004	0.0005	0.0005	0.0005	0.0003
lnBGZ_geo	0.0007	0.0108			0.0118 †	0.0070	0.0082	0.0016	0.0043
constant	0.2682	0.1855	0.1826	0.1110	0.0891	0.1233	0.1519	-0.0531	0.0762
N	261		517		517			440 [3]	
Year Effect	Yes		Yes		Yes			Yes	
Rho	0.7107		0.7679		0.7694			-	

Note. Source: elaborated by the author.
† p<0.10, * p<0.05, ** p<0.01, *** p<0.001
[1] Cluster-adjusted, heteroskedasticity-robust standard errors.
[2] Cluster specific AR(1) autocorrelation adjusted standard errors.
[3] 77 observations were dropped because of acquirers that made only one CBA announcement.

The fixed-effects, generalized least square (FEGLS) estimators can be used as a remedial solution to this problem (Wooldridge, 2002), as shown in the last two columns of **Table 13**, insofar as the assumption of homoscedasticity in the error term is relaxed[59]. Regression outcomes and conclusions do not change with respect to previous findings, reinforcing the conclusions that, first, increasing cultural differences between the acquiring firms' home country and the targets' host country are negatively associated with investors' response (giving support to hypothesis **H1**) and, second, that the home country-specific *uncertainty avoidance* dimension positively moderates the relationship between the cultural distance and the short term returns to acquiring firms' shareholders (giving support to hypothesis **H2a**).

From the above findings and discussions, the key emerging conclusions are that:

a) the national cultural distance composite index, based on Hofstede's four dimensions, combined according the procedure suggested by Kogut and Singh (1988), seems to better predict investors' reaction to CBA announcements in comparison with the other "psychic" distance concepts such as the administrative and geographical distances between home and host countries, as derived by Berry et al. (2010);
b) investors' perceptions regarding the cultural dissimilarities between these countries are factored in their response as an anticipation of the expected difficulties that acquiring firms' will have during the post-merger integration process, as predicted by the several theoretical streams that focus on the role of culture in M&A, as covered in **section 2.3**;
c) due to the positive and significant moderating effect of the *uncertainty avoidance* dimension, investors seem also to perceive that acquirers from home countries characterized by high *uncertainty avoidance* scores will be able to better handle the challenges that they will face in the post-merger integration stage, to the extent that these firms, as recognized in the cross-cultural research literature and previously stated, have been associated with a preference for organizational rules and procedures that increase the chances of a successful completion of the M&A deal (Morosini, 1998; Morosini et al., 1998);

[59] This estimator is implemented in Stata I/C, version 13.1, with the *xtgls* command, using the *corr* (*psar1*) option – to designate a firm-specific, first-order autoregressive process, AR(1), within the firm – in order to estimate the covariance matrix of the error term, in conjunction with the *force* option, taking into consideration that the timing of CBA announcements are not equally spaced across acquiring firms.

d) Although its role is recognized in the theoretical an empirical cross-cultural literature, *power distance* levels have no significant moderating effect on the cultural distance-M&A performance relationship.

6.1 Are Results Sensitive to the Length of Event Windows?

To this point, the analyses and discussions were grounded on fixed-effects panel data regression models that considered the depended variable – the short term, cumulative abnormal returns to acquiring firms' shareholders – calculated over the 11 day event windows. Even though there is no consensus among researchers on what should be the appropriate length of event windows (McWilliams, Siegel, & Teoh, 1999), it is a common practice in the management literature the adoption of multiple windows, with examples ranging from 2 to 21 days (Thanos & Papadakis, 2012).

In what follows, the **Model III** (**FEGLS**) as per the last two columns in **Table 13**, will be extended considering the cumulative abnormal return measurements over five additional event window durations: on the day of the CBA announcement, and over the 3, 5, 7 and 9-day event windows centered on the announcement date. **Table 14** summarizes the results, where the last two columns are the replication of the last two columns of **Table 13**.

From **Table 14**, it seems that results are mixed for very short event windows, but a pattern emerges as long as investors have more time to "digest" the information conveyed by the CBA announcements. Hypotheses **H1** and **H2a** are consistently supported for event windows longer than 7 days.

6.2 Are Results Sensitive to Alternative Measurements of Cultural and Psychic Distance Perceptions?

Section 2.1.1.2 covered four main analytical frameworks related to cross-national cultural comparisons, based upon work-related attitudes, values and beliefs captured in surveys having respondents in managerial positions as the focal group: Hofstede's (1980, 1997) four-dimensional framework, Trompenaars & Hampden-Turner's (1998) five-dimensional framework, GLOBE project's (House et al., 2004) nine-dimensional framework and Ronen & Shenkar's (1985, 2013) country cluster mapping proposal.

Table 14

Effects of Cultural Distance on Investors' Reaction to Cross-Border Acquisition Announcements for Dependent Variables Measured Along Event Windows of Varying Lengths

	Dependent Variable																	
	car[1]			**car[-1,0,+1]**			**car[-2,0,+2]**			**car[-3,0,+3]**			**car[-4,0,+4]**			**car[-5,0,+5]**		
	Coefficient		**SE[1]**	**Coefficient**		**SE[1]**	**Coefficient**		**SE[1]**	**Coefficient**		**SE[1]**	**Coefficient**		**SE[1]**	**Coefficient**		**SE[1]**
Control Variables																		
lnsize	0.0009	†	0.0005	0.0027	***	0.0006	-0.0004		0.0012	0.0015		0.0013	0.0038	**	0.0013	0.0052	**	0.0017
ecfreedom	-0.0034		0.0023	-0.0010		0.0028	0.0011		0.0046	0.0003		0.0042	-0.0047		0.0053	-0.0074		0.0059
Expl. Variables																		
cdis_hof	-0.0061		0.0165	-0.0759	**	0.0243	-0.0485		0.0375	-0.0686	†	0.0402	-0.0894	*	0.0405	-0.1403	*	0.0568
uav_cdis_hof	0.0001		0.0002	0.0009	***	0.0003	0.0006		0.0005	0.0008		0.0005	0.0010	*	0.0005	0.0016	*	0.0007
pdi_cdis_hof	-0.0004		0.0005	-0.0001		0.0007	0.0003		0.0011	0.0005		0.0012	0.0009		0.0015	0.0012		0.0016
BGZ_adm	-0.0001		0.0001	0.0001		0.0002	0.0005	*	0.0002	0.0005	†	0.0002	0.0005		0.0003	0.0005	†	0.0003
lnBGZ_geo	0.0012		0.0014	0.0004		0.0018	-0.0003		0.0029	0.0010		0.0031	0.0033		0.0037	0.0016		0.0043
constant	-0.0057		0.0251	0.0016		0.0364	0.0157		0.0498	-0.0038		0.0576	-0.0602		0.0693	-0.0531		0.0762
N	440			440			440			440			440			440		
Year Effect	Yes			Yes			Yes			Yes			Yes			Yes		

Note. Source: elaborated by the author.
† p<0.10, * p<0.05, ** p<0.01, *** p<0.001
[1] Cluster specific AR(1) autocorrelation adjusted standard errors.

Insofar as, up to this point, hypotheses testing has been based on explanatory variables derived from Hoftede's studies, the analyses that follow have the main objective to test the robustness of the model represented by equation (10), incorporating alternative concepts regarding cultural and psychic distances.

Therefore, the previously mentioned studies – except the work from Trompenaars & Hampden-Turner, due to the fact that these researchers (and also management consultants) do not make their data publicly available – will be the source of the data to be used as explanatory variables in the fixed-effects panel data regression models. To these, a fourth psychic distance construct alternative will be incorporated in the analysis, based on Håkanson & Ambos (2010) research.

Unfortunately, due to data availability problems, sample sizes will differ depending upon the specific explanatory variable. For example, despite their original effort in determining the antecedents of psychic distance and the sheer number of 1,414 survey responses, the Håkanson & Ambos' (2010) study was constrained to the biggest 25 economies, measured by their absolute GDP in 2001[60], out of which only the three largest South American economies (Argentina, Brazil and Mexico) were included. Another example is the more restricted country sample on which the GLOBE project was based (in comparison with Hofstede's research), with the exclusion of a number of South American countries such as Chile, Paraguay, Peru, and Uruguay, thus eliminating all CBA announcements that were originated in Chile and Peru (124 observations) and a significant number of observations for which these countries hosted the target firms.

Table 15 summarizes the definition, sources and measurement procedures for these new explanatory variables and **Table 16** depicts their pairwise correlation matrix.

From the correlation matrix in **Table 16**, one can draw some interesting conclusions on the relationship between these several measures of cultural and psychic distances. First, cultural distance based on Hofstede's four cultural dimensions has a directionally consistent and significant correlations with all other variables, except with the geographical distance,

[60] These were the countries included in their sample: Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, France, Germany, India, Italy, Japan, Mexico, The Netherlands, Norway, Poland, Russia, South Korea, Spain, Sweeden, Switzerland, Turkey, United Kingdom, and USA.

implying that countries far away (close) are not necessarily culturally distant (close). Second, cases where home and host countries are members of the same "global cluster", according to Ronen and Shenkar (2013), those countries, in line with Håkanson and Ambos (2010) data, tend to be perceived as "psychically" close. Additionally, in these cases, acquiring firms tend to invest in host countries geographically and administratively close (Berry et al., 2010), where institutions are less developed if compared with their home countries. Third, consistent with Håkanson and Ambos' (2010) findings, psychic distance perceptions is strongly correlated with geographical distance.

Table 17 summarizes the results of the fixed-effects, generalized least square regressions for several alternative measurements concerning cultural and psychic distances, according to their proponents. Columns 2 and 3 are based on Hofstede's four national cultural dimensions, replicating the last two columns of **Table 13** (Model III, FEGLS).

Columns 4 to 7 are based on the nine cultural dimensions originated from GLOBE project: the first model (columns 4 and 5) grounded on the *current practices* scales and the second model (columns 6 and 7), on the *should be values* scales[61]. In a way analogous to the model based on Hofstede's scales, four additional variables were derived to capture the moderating effects of the *uncertainty avoidance* and *power distance* on the relationship between investor's reaction and their perceived cultural distance between the home and host countries: *uav_cdis_GLOBE* (which measures the interaction between the *uncertainty avoidance* index and the composite cultural distance index, *cd1_GLOBE*) and *pdi_cdis_GLOBE* (which measures the interaction between the *power distance* index and the composite cultural distance index, *cd1_GLOBE*), respectively, for the *current practices* scales and *uav_cdis_GLOBE2* (which measures the interaction between the *uncertainty avoidance* index and the composite cultural distance index, *cd2_GLOBE*) and *pdi_cdis_GLOBE2* (which measures the interaction between the *power distance* index and the composite cultural distance index, *cd2_GLOBE*) , respectively, for the *should be values* scales.

[61] See **section 2.1.1.2** for a description of GLOBE project's two measurement concepts with respect to the nine cultural dimensions.

Table 15

Alternative Cultural and Psychic Distance Description and Measurement Procedures to Be Used as Explanatory Variables in the Fixed-Effects Generalized Least Square Panel Data Regressions

Variable	Description
cd1_GLOBE	Cultural distance between host and home countries, based on the GLOBE project's nine cultural dimensions (**current practices**), according to House et al. (2004), using a combination methodology proposed by Kogut and Singh (1988). Data were downloaded from Professor Anne-Will Harzing's website at http://www.harzing.com.
cd2_GLOBE	Cultural distance between host and home countries, based on the GLOBE project's nine cultural dimensions (**should be values**), according to House et al. (2004), using a combination methodology proposed by Kogut and Singh (1988). Data were downloaded from Professor Anne-Will Harzing's website at http://www.harzing.com.
rs_2013	A binary variable that equals to one if the acquiring and target firms are in the same "global cluster", according to Ronen and Shenkar (2013), and zero otherwise. In this study, countries were classified in eleven global clusters: Arabic, Anglo, Nordic, Germanic, Latin America, Near East, Latin Europe, East Europe, African, Far East and Confucian. Data were retrieved from Figure 5, in page 886 of their 2013 paper.
haka	Psychic distance between host and home countries, based on the study conducted by Håkanson and Ambos (2010). Data were retrieved from Table 2, page 202 of this paper, which reflect the perception of 1,414 respondents (all MBA executive students) regarding the psychic distance (or "closeness") between their home and foreign countries, based on a restricted sample of 25 of the world's largest economies.

Note: Source: elaborated by the author.

Table 16

Pairwise Correlation Matrix Between the Several Concepts of Cultural and Psychic Distance

	cdis_hof		cd1_GLOBE		cd2_GLOBE		rs_2013[a]		haka		ecfreedom[a]		BGZ_adm		lnBGZ_geo
cdis_hof	1.0000														
	571														
cd1_GLOBE	0.3183	*	1.0000												
	357		**358**												
cd2_GLOBE	0.6418	*	0.3682	*	1.0000										
	356		**357**		**357**										
rs_2013[a]	-0.7021	*	-0.4343	*	-0.4913	*	1.0000								
	555		**356**		**355**		**561**								
haka	0.6557	*	0.4285	*	0.3794	*	-0.8065	*	1.0000						
	173		**163**		**163**		**173**		**173**						
ecfreedom[a]	0.4735	*	0.2151	*	0.3366	*	-0.5018	*	0.2334	*	1.0000				
	571		**358**		**357**		**561**		**173**		**601**				
BGZ_adm	0.1298	*	-0.0471		0.1414	*	-0.3885	*	0.3855	*	0.1632	*	1.0000		
	571		**358**		**357**		**561**		**173**		**600**		**601**		
lnBGZ_geo	0.0473		0.3037	*	-0.0121		-0.4366	*	0.8150	*	0.1849	*	0.4072	*	1.0000
	571		**358**		**357**		**561**		**173**		**600**		**601**		**601**

Note. Source: elaborated by the author.
* $p < .05$
Bold figures refer to the number of non-missing pairwise observations.
[a] Categorical variables.

Table 17

Effects of Several Cultural and Psychic Distance Concepts on Investors' Reaction to Cross-Border Acquisition Announcements

car[-5,0+5] is the Dependent Variable

	Cultural and/or Psychic Distance Conceptual Source														
	Hofstede			**GLOBE, Current Practices**			**GLOBE, Should Be Values**			**Ronen & Shenkar (2013)**			**Håkanson & Ambos (2010)**		
	Coeff		**SE[1]**	**Coeff**		**SE[1]**	**Coeff**		**SE[1]**	**Coeff**		**SE[1]**	**Coeff**		**SE[1]**
Control Variables:															
lnsize	0.0052	**	0.0017	0.0067	**	0.0022	0.0071	**	0.0023	0.0050	***	0.0011	0.0093	**	0.0029
ecfreedom	-0.0074		0.0059	-0.0019		0.0082	-0.0041		0.0092	-0.0094	*	0.0042	-0.0100		0.0124
Explanatory Variables:															
cdis_hof	-0.1403	*	0.0568												
uav_cdis_hof	0.0016	*	0.0007												
pdi_cdis_hof	0.0012		0.0016												
cd1_GLOBE				-0.0383		0.2136									
uav_cdis_GLOBE				0.0002		0.0542									
pdi_cdis_GLOBE				0.0060		0.0080									
cd2_GLOBE							-0.2950	†	0.1673						
uav_cdis_GLOBE2							0.0617	†	0.0345						
pdi_cdis_GLOBE2							-0.0056		0.0039						
rs_2013										0.0134	*	0.0067			
haka													-0.0209		0.0286
BGZ_adm	0.0005	†	0.0003	-0.0002		0.0005	-0.0002		0.0005	0.0003		0.0003			
lnBGZ_geo	0.0016		0.0043	0.0037		0.0059	-0.0036		0.0069	0.0022		0.0038			
constant	-0.0531		0.0762	0.1213		0.0910	0.1734		0.0968	-0.0890		0.0779	-0.0847		0.0722
N	440			272			272			432			126		
Year Effect	Yes			Yes			Yes			Yes			Yes		

Note. Source: elaborated by the author. † p<0.10, * p<0.05, ** p<0.01, *** p<0.001
[1] Cluster specific AR(1) autocorrelation adjusted standard errors.

Columns 8 and 9 refer to the model based on the country cultural cluster mapping proposed by Ronen and Shenkar (2013). In this model, the dichotomous explanatory variable (*rs_2013*) captures the membership effect of the acquirer and target companies to same cultural cluster (when its value is 1) or to different clusters (when its value is zero). **Figure 8** shows that, considering Brazilian and Mexican Multilatinas, the percentage of CBAs where acquirers and targets belong to same cultural cluster are close to that when they are not, partly reflecting the diversification of their industrial base. Chile is an extreme case, taken into account that in 90% of the CBA deals, acquirer and target firms were in the same Latin American cluster.

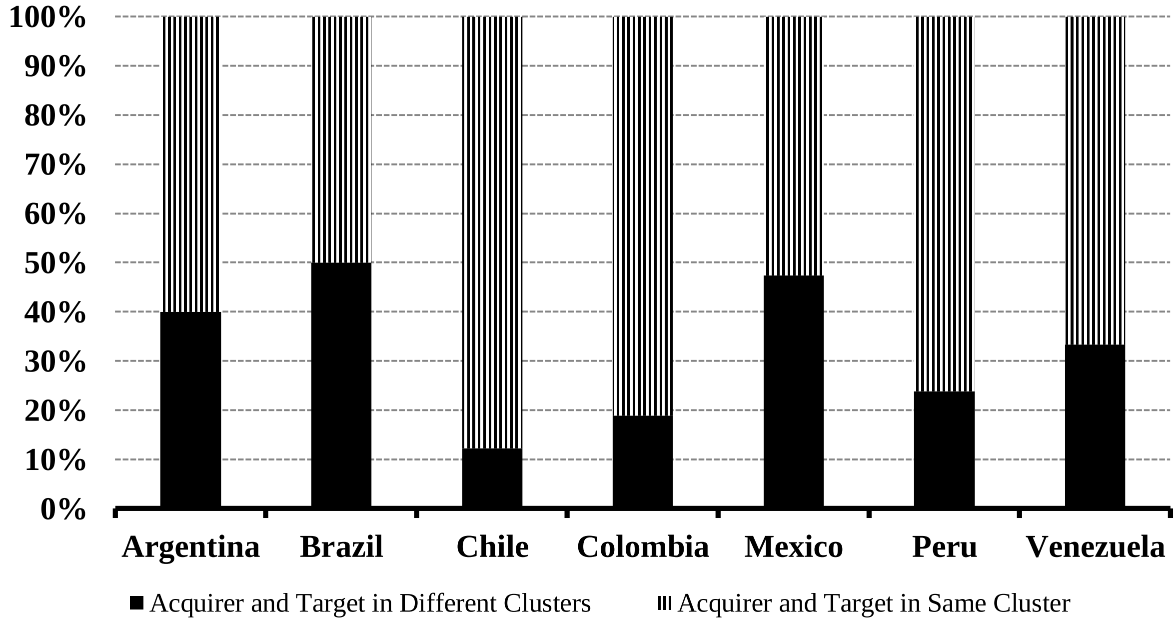

Figure 8. **Composition of cross-border acquisition announcements (by home country), in percentage of deals where acquirer and target are in the same or in a different cultural cluster**. Source: elaborated by the author, based on cultural cluster maps developed by Ronen and Shenkar (2013).

The last two columns of **Table 17** refer to the model based on the psychic distance measurement, according to Håkanson and Ambos (2010) who, driven by their objective to determine the antecedents of psychic distance, used this scale as a dependent variable in their regressions. In the present study, it will be used as a main explanatory variable (*haka*). Insofar as this variable captures the perception of a psychic distance, no explanatory variable measuring this same construct (such as *BGZ_adm* and *lnBGZ_geo*) were added in this model.

From an attentive analysis of **Table 17** a number of conclusions emerge:

1. all coefficients associated with cultural and psychic distance variables and their interactions have the theoretically expected signs. However, the explanatory power of the models differ depending upon the measurement scale of these variables, according to their conceptual source: Hofstede, GLOBE, Ronen & Shenkar (2010) and Håkanson & Ambos (2010);
2. interestingly enough, only the model based on the GLOBE project's cultural dimensions derived from *should be values* scales shows some explanatory power, supporting hypotheses **H1** and **H2a**, i.e., that investors' reaction are negatively affected the more culturally distant are the acquirer's home and target's host countries and that this negative effect is positively moderated by the degree of the uncertainty avoidance score that characterizes the home country[62];
3. the cultural cluster mapping proposed by Ronen and Shenkar (2013) also seems to show a good explanatory power when it comes to assessing the impact of cultural cluster membership of home and host countries on the investors' reaction to cross-border acquisition announcements[63]. On average, cumulative abnormal return to acquiring companies' shareholders is 1.34% higher when home and host countries are members of the same cluster, in comparison with cases where they are in different clusters. A similar result was obtained from a model (not reported) based on the clustering scheme proposed by Gupta and Hanges (2004), derived from the nine GLOBE project's societal practices and values-based cultural dimensions[64]. In this model, cumulative abnormal return to acquirers' shareholders is, on average, 1.65% higher when home and host countries belong to the same cluster than when they do not, strengthening the support to hypothesis **H1**;
4. the psychic distance measurement proposal from Håkanson and Ambos (2010), that reportedly represents a wide-ranging concept concerning country differences (mixing

[62] In contrast with this result, Vaara et al. (2012) found that GLOBE project's *current practice* scores correlated more strongly with post-acquisition integration outcomes than the *should be values* scores, which supported their decision to use the former scales in their structural equation model.

[63] In this model no moderating effect variables are added, as the authors' fundamental concern is to empirically draw country clusters and assess their adjacency and cohesiveness from extant cross-cultural research and not derived from specific cultural dimensions.

[64] Despite differences in country sample sizes, home and host country dyads that were included both in Ronen & Shenkar's (2013) and in Gupta & Hanges' (2004) studies were classified in exactly the same way, i.e., countries that were members of the same cluster in one study were also in the same cluster in the other. The same outcome was also observed in cases were these countries were included in distinct clusters.

cultural and non-cultural elements[65]) has no significant effect on investors' reaction to CBA announcements;

5. none of the above mentioned models detected any significant effect of explanatory variables associated to the psychic distance construct, either that related to the administrative (*BGZ_adm*) or the geographical (*lnBGZ_geo*) distance concepts. It the seems that investors are not sensitive to these psychic distance stimuli, which leads to the rejection of hypotheses **H3a** and **H3b**;
6. notwithstanding the relevance of the power distance dimension in explaining differences in decision making practices, and in ways of managing and organizing economic activities (Morosini, 1998; Morosini et al., 1998), none of the models detected any significant *power distance* moderating effect either, which leads to the conclusion that hypothesis **H2b** is cannot be supported by the data;
7. from the above findings and comments, and given its wide country coverage, the model based on the Hofstede's four national cultural dimensions seems to better predict the effect of cultural distance, as perceived by investors, on the performance of cross-border acquisitions made by the Multilatinas, measured by the short term return to their shareholders. The empirical support to hypotheses **H1** and **H2a** is an evidence that the theoretical streams on which they were derived are still in plain validity for this particular Multilatinas sample and their CBA announcements.

Despite inconsistent and, sometimes, conflicting results from the massive research on M&A performance implications of the cultural differences between acquirers and targets, the findings in this study are somewhat consistent with those that used similar M&A performance constructs, levels of culture and research methods, just to keep in mind the call from Stahl and Voigt (2008) and from Risberg and Meglio (2012) that these methodological issues are of fundamental relevance if researchers want to avoid "apples and oranges" comparisons.

In their relatively recent and comprehensive meta-analytical effort conceived with the primary objective to reconcile the conflicting perspectives and findings that clutter de culture-M&A performance research and to better understand the mechanisms through which cultural differences affect M&A performance[66], Stahl and Voigt (2008) found a very small and

[65] This is main reason why variables related to administrative (*BGZ_adm*) and geographic (*lnBGZ_geo*) distances were not incorporated into the model.

[66] See their proposed model in **Figure 7**, **section 2.4.**

insignificant average effect size, leading them to refute the hypothesis that cultural differences are negatively associated with acquisition announcement returns, a finding that contradicts the results of the present study. However, they promptly recognize that positive and negative effect sizes may cancel out when averaged and combined into an aggregate population estimate, which can lead to wrong conclusions about the significance or strength of the calculated "true" cultural distance average effect. In their words, "… cultural differences matter in M&A, but they seem to present a "double-edged sword" or a "mixed blessing". Thus, cultural differences may be positively or negatively associated with M&A performance, depending on factors that are currently poorly understood" (Stahl & Voigt, 2008, pp. 171-172).

In a more recent study, Reus and Lamont (2009) shed a new light on this "mixed blessing" view of the role of culture in M&A, in a context of cross-border acquisitions undertaken only by US acquirers in order to control for the home country effect. Using key informant opinions from acquiring companies as well as the stock market short term announcement returns to gauge the performance of the CBAs, the authors found a negative and significant relationship between cultural distance – measured as composite index as a combination of the nine cultural dimensions from GLOBE project, using an adapted version of Kogut & Singh's (1988) combination procedure[67] – and M&A performance, consistent with the results of this study. However, the insertion of three regressors related to acquirers' integration capability (*understandability*[68], *communication* and *retention of key human resources* from the target companies) the direct effect of cultural distance on M&A performance lost its significance. These integration-related capabilities and the positive moderating effect of cultural distance on them turned out to be statistically significant, implying that acquirers that develop those capabilities can reap economic benefits even if investing in culturally distant host countries.

Findings in this thesis were also consistent with extant research on culture-M&A performance relationship, according to the capital markets' view, as discussed in **section 2.3.4**, suggesting that, first, investors perceive increasing post merger integration costs as cultural distance between home and host countries widens and, second, that acquirers may develop an

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[67] See equation (1) in **section 2.1.1.5**.

[68] Reus and Lamont (2009) defined *understandability* as the extent to which employees from the combined entity can codify and learn the practices and routines underlying the potential resource advantages generated during the integration process.

incomplete understanding of host countries' cultural and institutional idiosyncrasies which may lead to overpayment for the target firms.

In this respect, the findings from S. Chatterjee et al. (1992)[69], Datta and Puia (1995) and Chakrabarti, Gupta-Mukherjee, and Jayaraman (2009) are worth mentioning. The first is from a domestic perspective (US acquirers and targets), and the second is based on a cross-border context, restricting the home country to the US. The study from Chakrabarti et al. (2009) use a sample of 800 CBAs from a range of 43 home and 65 host countries during 1991-2004 period. All of them lend support to the hypothesis that cultural distance are negatively related to investors' reaction, measured by the short term returns to acquirers' shareholders, around the day of the merger or acquisition announcements.

Interestingly enough, Chakrabarti et al. (2009) primary research objective was to assess the cultural distance impact on the long term stock market performance, measured over a three year period following the closing of the M&A transaction, coming to the conclusion that – after controlling for several deal-specific, economic, and corporate governance variables and country fixed effects – acquisitions perform better in the long run if acquirer and target are culturally more disparate, i.e., a finding that is opposite to the short term market reaction to the announcement of the deal.

From these authors' standpoint, this positive long term effect is ascribed to a number of factors, amongst them, the fact that disparate cultures may bring about higher synergies and organizational strengths exploitable by acquirers in global markets, and a more careful scrutiny concerning deal selection, due diligence and nature of contracts, besides a greater autonomy bestowed to the target firms in unfamiliar markets, a phenomenon that Kale, Singh, and Raman (2009) dubbed as *partnering*.

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[69] S. Chatterjee et al. (1992) develop their model using the corporate culture concept based on a 7-dimension measurement instrument, as mentioned in **section 2.1.1.3**. As pointed out elsewhere in this thesis, corporate culture is heavily influenced by national culture as it is embedded in the way organizations define and implement their structures, routines, managerial processes and responses to strategic issues (Schneider, 1988; Schneider & Barsoux, 2004; Schoenberg, 2001; Weber et al., 1996).

7 DISCUSSION AND CONCLUDING REMARKS

It is a general consensus in the IB literature that the international expansion of Multilatinas has its origin in the inward-looking, state-led import-substituting industrialization (ISI) policies until the 1980s that allowed these organizations, through long-term and path-dependent processes, to build the critical resources and technological and managerial capabilities that turned out to be crucial in surviving and growing amid the macroeconomic liberalization reforms that swept Latin America during the 1990s (Anand, Brenes, Karnani, & Rodriquez, 2006; Chudnovsky et al., 1999; Chudnovsky & López, 2000; Cuervo-Cazurra & Dau, 2008; Del Sol, 2010; Fleury & Fleury, 2011; Suarez & Oliva, 2002, 2005).

Over the last two decades, this massive academic production has, in general, used a qualitative research methodology, focusing on this international growth phenomenon through the widely known theoretical lenses such as the eclectic (or OLI) paradigm (Dunning, 1981, 1988a, 1988b) , the investment development path (Dunning, 1986; Dunning & Narula, 1996; Tolentino, 1987) , the internalization theory (Buckley & Casson, 1976; Hennart, 1982; Rugman, 1980, 1986; Rugman & Verbeke, 2003) and the learning school (Johanson & Vahlne, 1977, 2009) – just to mention the most preponderant – in order to explain and predict the timing, pattern and flows regarding the outward FDIs (OFDIs) implemented by the EMNEs in general and Multilatinas in particular. Notwithstanding their valuable contribution to IB theory building and extension, these studies have been silent with respect to the performance of the cross-border acquisitions (the dominant form of Multilatinas' OFDIs) made by these firms.

This thesis makes a complementary contribution to this literature. By resorting to the theoretical foundations of the behavioral finance theory – which, over the last decade, has shed new light on investors' nature and behavior, relaxing the strong market efficiency assumption on which event studies are grounded – and of the several theoretical strands that inquire the role of culture in processes related to M&As, the findings discussed in the previous chapter give support to the hypothesis that culture matters when it comes to explain the effect of cultural distance, as perceived by investors, on their reaction to CBA announcements made by Multilatinas.

Taking into consideration that M&A performance is a complex construct, whose measurement has been operationalized in a variety of ways in the management literature, a special attention has been directed to address the call from Cording et al. (2010) regarding the research design in order to keep the alignment between theory and measurement. The use of the event study method and the choice of the explanatory and control variables – all publicly known at the time of the CBA announcements – besides addressing the four research questions formulated in the beginning of this work (see **section 1.2**), allow, according to these authors, the narrowing of the relevant content domain of the chosen M&A performance construct.

This thesis also integrates recent international cross-cultural management research, looking at the effects of other and more recently formulated concepts concerning cultural and psychic distance measurements besides Hofstede's four-dimensional national cultural framework, such as GLOBE project's nine-dimension framework, Ronen & Shenkar's (2013) cultural cluster mapping model and Håkanson & Ambos' (2010) survey results on psychic distance perceptions. Findings from the previous chapter lend support to the argument that the models are reasonably robust to these alternative concepts and measurements as well as to varying ranges of event window lengths over which cumulative abnormal shareholder announcement returns (the dependent variables) are determined.

This thesis also makes a supplementary contribution to the regionalization/globalization debate, fostered by the empirical research conducted by Prof. Alan M. Rugman and associated scholars. They found that the majority of MNEs tend to concentrate their operations in their home-region[70] and that the truly global MNEs was the exception rather than the rule (Rugman, 2005; Rugman & Collinson, 2005; Rugman & Oh, 2007; Rugman & Verbeke, 2004, 2005, 2007, 2008). Supported by the theoretical foundations of the transaction cost economics[71], their main argument is that MNEs success is not hinged upon the mere presence of firm-specific advantages (FSAs), but on their ability to deploy these FSAs, adjusting them to the country-specific advantages (CSAs) prevailing in the host countries, a process that is more efficiently done within the borders of MNEs' home- region rather than in other host

[70] That region of the *triad* (North America, Europe and Asia) where their headquarters are located.

[71] See Wolf, Dunemann, and Egelhoff (2008) for other theoretical streams that can explain and predict the home region orientation of the MNEs' internationalization strategies.

countries outside it[72]. The Ronen & Shenkar's (2013) study extended Rugman's framework providing, first, an alternative (to the *triad* concept) regional division based on empirically drawn boundaries and, second, a map that allows for the finer discrimination in the FSAs and CSAs adjustment processes, inasmuch as, according to these authors, country clustering maps better capture the managerial challenges of efficiently implementing such processes than traditional distance measures do.

By modeling the short term announcement returns as a function of acquirer and target same-cluster membership, a dichotomous variable (see **Table 17**, columns 8 and 9), it became clear that capital markets positively rewarded acquirers that went after potential targets that belonged to the same acquirers' cluster (i.e., Latin America): this same-cluster effect was a cumulative abnormal return of 1.34% higher than those observed in deals where targets were in regions other than Latin America.

Though it was not in the scope of this thesis to check if Multilatinas' internationalization strategies are supported by Rugman's home-region orientation (HRO) theory[73], the fact is that investors' reaction due to their perception of similarities or dissimilarities between home and host countries is also consistent with the tenets of HRO theory. As Ronen & Shenkar note,

> While clusters do not represent political and institutional entities *per se*, the commonalities they embed contain key elements facilitating in-cluster transactions….These commonalities lower intra-cluster transaction costs, while inter-cluster transaction barriers are captured by cluster adjacencies aided by context variables such as language-rooted coding and decoding barriers….Clusters can also be seen as networks that mitigate uncertainty and opportunism, impacting on entry mode and contracting forms (2013, p. 870).

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[72] Osegowitsch and Sammartino (2007) clarify this issue by pointing out that the additional transaction costs of doing business in host regions are those associated with the development of complementary FSAs – such as investments in location-bound brand name development and reputation-building (Rugman & Verbeke, 2007) – necessary to efficiently deploy the firm's main, imperfectly non-location-bound FSAs, i.e., those especially at the downstream end of the value chain, developed in their home country. Rugman's and colleagues' fundamental assumption, gounded on TCE reasoning, is that these additional transaction costs – linked to what they call *liability of foreignness* – are higher in host-region markets than in home-region markets.

[73] One could be tempted to extrapolate this same-cluster effect to the prediction of the Uppsala School, positing that the internationalization process begins in foreign markets close to the home market in terms of the psychic distance, usually through low resource commitments (Johanson & Vahlne, 1977) . This is not the case here because what are under analysis are the Multilatinas' cross-border acquisitions and not the sequential patterns of their internationalization movements.

The strategic management, M&A and international business practices can also benefit from this current research. As discussed elsewhere in this thesis, M&As are complex, multistage and multifaceted organizational processes that have been adopted by firms as strategic options to renewal and growth (Haspeslagh & Jemison, 1991). Due to fact that CBAs have extensively been used as a preferred entry mode in foreign markets, the cultural aspects involved in such processes have received a top priority in the research agenda of the academic world as well as the attention of practitioners and management consultants. As results presented in the previous chapter showed that investors' perception on cultural distance between acquirers and targets are negatively associated with abnormal short term returns accruing to acquirers' shareholders, two questions that naturally arise are: a) what should be done in order to assure that problems stemming from cultural differences do not derail the post-merger integration process – thus allowing for the capture of the expected synergies, leading to economic value creation? – and b) how Multilatinas (and acquiring firms in general) can address capital market concerns and formulate effective communication strategies with the investor community in such a way that negative reactions are mitigated[74]?

One possibility is a clear and objective communication with this kind of audience on the efforts and credible commitments in acquiring special, valuable and difficult to imitate capabilities to address such cultural issues as an integral part of broader process geared to *build an M&A machine*, using a metaphorical language from Haberer and Kohan (2007).

[74] Whether or not acquiring firms' managers, accountable for investment decisions, should "listen to the market" is an empirical question that has been explored in more advanced capital markets, with superior corporate governance and investor rights protection mechanisms. For example, Paul (2007) investigated the role of corporate boards after large declines in stock value surrounding acquisition announcements, and found that firms with independent boards are less likely to complete value-destroying M&A deals and that board independence is also associated with unusually high frequencies of business restructurings for bids that are completed, suggesting that independent boards effectively intervene in M&A deals the market perceive as difficult to integrate. In this same vein, Kau, Linck, and Rubin (2008) found that, on average, managers listen to the market, i.e., they are more likely to cancel investments when investors react unfavorably to the related announcements. They also found that firms listen more when their shares are held by large block holders and when their CEOs are more sensitive to higher pay-performance compensation plans. The disciplinary power of corporate governance mechanisms regarding value-destroying decisions made by the management team has also been tested by Zhao (2002), who found a) a negative association between an acquisition announcement abnormal returns and the probability of a disciplinary CEO departure and b) that CEOs who cancel an acquisition after observing a negative investor reaction are less likely to be subsequently replaced. It should be noted that, according to the corporate finance and financial economics literature, capital markets and corporate governance in Latin America are very far away from the context covered in these above mentioned studies, despite initiatives taken by few Latin American firms aiming at improving their corporate governance practices (and protection of minority shareholders' rights as well), with positive effects on their valuation multiples and on dividends flows to stockholders (Chong & López de Silanes, 2007). Management consulting firms have also stressed the fundamental importance of implementing such corrective measures, as one of the necessary conditions that will enable Multilatinas to reduce their cost of capital and attract foreign equity and debt financing, thus consistently sustaining their international growth (Costa, Pigorini, Ramos, & Souza, 2007).

Scholars who adopt a process view of M&A have advocated that cultural issues should be addressed by acquirers right in the first steps of the M&A deal, particularly during the due diligence phase (Angwin, 2001; Cartwright & McCarthy, 2005; Gomes et al., 2013; Greenberg et al., 2005; Stahl et al., 2013). Though recognizing its theoretical appeal and the practical difficulties in carrying out a *cultural fit* assessment, Cartwright and McCarthy (2005) suggest the use of extant instruments to measure cultural differences either at corporate[75] and at national levels[76]. Their main argument is that the effective accomplishment of this assessment would make the concept of cultural due diligence a feasible possibility in a wide range of applications including a) the assessment of the extent of differences or gaps between acquirers and targets in those dimensions of culture that have proven links to integration problems and its subsequent impacts on the performance of the acquisition ; b) the deconstruction of stereotypical cultural attitudes; c) the valuing of the hidden cultural assets of potential targets; d) the provision of culturally sensitive information to integration teams from the outset, in order to allow them to effectively implement post merger integration (PMI) plans, besides extending the use of those instruments to target cultural differences at lower organizational levels (departments and functions) in host countries[77].

Besides recognizing the importance of human and cultural due diligence in the pre-merger phase, a growing number of researchers – drawing on the organizational learning, knowledge and capability transfer and strategic management theories – have turned their attention to the mechanisms through which national and organizational cultural dissimilarities between the merging firms manifest their impact on the overall performance of the post-merger integration sub-process, a necessary condition to assure the success of the M&A deal, since it is in this phase of the M&A process – as stressed elsewhere in this thesis – that the anticipated synergies are realized and economic value is created (Haspeslagh & Jemison, 1991).

[75] Used in several cross-cultural management research such as in S. Chatterjee et al. (1992), Lubatkin et al. (1999), Weber et al. (1996), Schweiger and Goulet (2005), Weber and Tarba (2012), and Weber et al. (2012).

[76] Instruments developed by Hofstede (1980), GLOBE project (House et al., 2004) and F. Trompenaars (1994) are typical examples.

[77] A survey conducted by Bain & Company, a well-known global management consulting firm and a strong proponent of *human due diligences*, highlighted the importance of addressing human resource issues as earlier as possible in an M&A deal. Comparing people-related practices in successful and unsuccessful deals, the consultants found that, in successful cases, 90% of the acquirers had identified key employees and targeted them for retention during the due diligence or within the first 30 days after the announcement. Compared with unsuccessful acquirers, this task was accomplished in only 33% of the deals (Harding & Rouse, 2007).

Capability building aiming at mitigating failure risks of cross-border M&As has also captured the attention of management consulting firms due to their involvement in international M&A projects. The review of recent work suggests that they are in a broad consensus when it comes to the proposal of a series of actions that Multilatinas in particular should take and the several challenges that they have to overcome in order to build sustainable strategic positions in foreign locations, using as springboard their competitive advantage achieved in their home countries. Besides the need to aggressively overhaul their corporate governance models (see footnote 74) and propose an active involvement of boards in general in order to develop a competitive advantage in deal making (C. Bhagat & Huyett, 2013), the structuring of dedicated M&A and PMI teams, the development of policies and procedures related to the management of global pools of human resources and an effective implementation of processes geared towards the bridging of the cultural divide between acquiring and target firms are amongst their recommendations to controlling shareholders, boards and executive teams (Aggarwal et al., 2012; Aguiar et al., 2009; Costa et al., 2007; Haberer & Kohan, 2007; Strüven, Barrett, Dawson, Friedman, & Goldsbrough, 2010).

It should be clear at this point that this thesis did not exhaust the main theme on Multilatinas' CBAs performance, due to its inherent limitations, particularly with regard to the choice of the measurement of the CBA performance construct and the method used to calculate it as well as the choice of the sample of acquirers, restricted to big and public firms.

As Oler, Harrison, and Allen (2008) emphasized in their paper, stock markets are unable to fully anticipate the performance implications of acquisitions at the time of their announcements. In fact, M&As – due to the several factors inherent to the acquiring and target firms, to their countries, to the deals and to the socio-cultural aspects of the environment on which they are embedded – are very complex events which explains why, after decades of massive amount of research, we still come across inconsistent and contradictory findings with respect to not only **if** but **how** cultural dissimilarities between the merging firms affect the M&A performance (Teerikangas & Very, 2006).

The previously discussed results and findings should be taken as a first step to understand the antecedents of success of cross-border acquisitions made by Multilatinas. Future research should consider a more extended sample of Multilatinas – made up of public and privately owned acquiring firms – with the purpose of assessing the joint effects of cultural differences between acquirers and targets, either at national and organizational levels. Extant research in other contexts have found surprising impacts of these variables on acquisition performance, in a sense that organizational cultural differences have shown a much stronger effect than national cultural differences (Björkman et al., 2007; Weber et al., 1996). Whether this will be the case of Multilatinas is an interesting research question.

Moreover, more sophisticated research designs will be called for this endeavor, in order to advance knowledge on Multilatinas' acquisitive behavior aiming at expanding their regional scope, particularly bearing in mind the need to a) model the relationships amongst concepts of cultural distances and other complex constructs that reportedly have significant impacts on M&A outcomes (Bauer & Matzler, 2013; Birkinshaw et al., 2000; Björkman et al., 2007; Larsson & Finkelstein, 1999; Stahl & Voigt, 2008; Teerikangas & Very, 2006) and b) conceptualize the "M&A performance" as a long term and multidimensional construct, including accounting-based measures and management perceptions, based on instruments available from past research (Bauer & Matzler, 2013; Cording et al., 2010; Papadakis & Thanos, 2010; Risberg & Meglio, 2012; Schoenberg, 2006; Thanos & Papadakis, 2012; Zollo & Meier, 2008).

As a final comment, what should be clear from all that has been researched in the literature and discussed in this thesis is that Multilatinas may or may not "listen to the market "in order to "fine tune" the decision on a focal M&A transaction, but gaining a truly competitive advantage will demand the building and/or acquisition of valuable, rare and difficult to imitate capabilities and skills in developing effective decision making processes in order to identify opportunities, assess strategic and operational synergies, conduct negotiations, competently manage the cultural divide between the merging partners, and successfully integrate cross-border M&A deals, thus assuring that the anticipated economic value is created.

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