

Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommendations for the future

Katsuhiko Shimizu^{a,*}, Michael A. Hitt^{b,1},
Deepa Vaidyanath^{c,2}, Vincenzo Pisano^{d,3}

^aDepartment of Management, The University of Texas at San Antonio, 6900 North Loop 1604 West, San Antonio, TX 78249-0634, USA

^bMays Business School, Texas A&M University, College Station, TX 77843-4221, USA

^cW.P. Carey School of Business, Arizona State University, Tempe, AZ 85287, USA

^dUniversity of Catania, Corso Italia, 55, I-95129-Catania, Italy

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Abstract

Cross-border mergers and acquisitions (M&As) have gained in popularity over the last decade. However, research on this type of diversification strategy has not kept pace with this trend. While there is considerable research in the area, it is unfortunately fragmented, leaving gaps that need to be addressed. Herein, we examine the theoretical perspectives and research findings on cross-border M&As from three perspectives: cross-border M&As as a (1) mode of entry in a foreign market, (2) dynamic learning process from a foreign culture, and (3) value-creating strategy. Current empirical research on this topic is also tabulated and grouped by theoretical stream to indicate major findings. Most importantly, we identify gaps in the literature and highlight five important research issues that provide directions for future research.

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* Corresponding author. Tel.: +1-210-458-5380; fax: +1-210-458-5783.

E-mail addresses: kshimizu@utsa.edu (K. Shimizu), mhitt@cgsb.tamu.edu (M.A. Hitt), deepa.vaidyanath@asu.edu (D. Vaidyanath), vpisano@unict.it (V. Pisano).

¹ Tel.: +1-979-458-3393; fax: +1-979-845-3420.

² Tel.: +1-480-965-3134; fax: +1-480-965-8314.

³ Tel.: +39-095-375.344; fax: +39-095-370.574.

1. Introduction

Mergers and acquisitions (M&As) have long been a popular strategy for firms and represent an important alternative for strategic expansion. Technological development and globalization have vastly contributed to the popularity of M&As and cross-border M&As. In the decade of the 1990s (the so-called fifth merger wave), the popularity of this strategy increased tremendously. Acquisitions completed in 1997 alone were valued at more than all acquisitions during the 1980s (Hitt et al., 2001a,b). In 1998, worldwide M&A activity totaled more than US\$2 trillion in terms of the stock value of the transactions announced (Child et al., 2001). Furthermore, the total value of deals completed between 1998 and 2000 was nearly US\$4 trillion, which is more than the total value of all deals completed during the preceding 30 years (Henry, 2002). And, while the overall M&A market follows a cyclical nature—and has cooled since the heyday of the late 1990s—the total number of worldwide M&As has been increasing recently at a rapid rate. This can be attributed to the dynamic nature of international trade. The consolidations of industries and regions have also contributed to the overall number and value of M&As worldwide to continuously increase.

While the majority of M&As involve two firms within the same country, over 40% of the M&As that were completed between 1999 and 2000 involved firms headquartered in two different countries (Hitt et al., 2001a,b). The increasing globalization of business has heightened the opportunities and pressures to engage in cross-border M&As (Hitt, 2000; Hitt et al., 1998a,b). Cross-border M&As pose tremendous challenges, in particular, at the post-acquisition stage (Child et al., 2001). Recent evidence suggests that they are not highly successful. For instance, a study by KPMG found approximately that only 17% of cross-border acquisitions created shareholder value, while 53% destroyed it (*Economist*, 1999). Given the increasing number of cross-border M&As and their growing importance in the global market, a better understanding of the opportunities and challenges for firms following this strategy is required.

While the occurrence of cross-border M&As has grown dramatically in the last few years, academic research on this type of strategic action has not kept pace with the changes. A review of the academic literature suggests that the results are fragmented across various disciplines, including strategic management, international business, human resource management, and finance. In fact, this subtopic has not been universally recognized as warranting distinctive examination separate from (domestic) M&As, in general. Presumably, this is the reason why Werner (2002) did not include cross-border M&As when identifying 12 distinct topics in the review of international management research between 1996 and 2000. Nevertheless, research on cross-border M&As has focused on a number of important issues, such as mode of foreign direct investment (FDI) or entry (Andersen, 1997; Barkema and Vermeulen, 1998; Brouthers and Brouthers, 2000; Hennart and Reddy, 1997; Kogut and Singh, 1988;), performance outcomes from acquisitive entry (Brouthers, 2002; Li and Guisinger, 1991; Nitsch et al., 1996), and shareholders' wealth creation by the cross-border M&As (Datta and Puia, 1995; Harris and Ravenscraft, 1991; Kang, 1993; Markides and Ittner, 1994; Morck and Yeung, 1992). Recently, more attention has been paid to post-acquisition issues such as integration processes (Child et al., 2001; Inkpen et al., 2000; Lubatkin et al., 1998; Olie, 1994; Weber et al., 1996), integration processes from an employee viewpoint (Risberg, 2001), post-acquisition turnover of acquired firm executives

(Krug and Hegarty, 2001; Krug and Nigh, 2001), post-acquisition performance of acquired (Very et al., 1997) and acquiring firms (Larsson and Finkelstein, 1999; Morosini et al., 1998), and the resulting knowledge transfer and organizational learning (Bhagat et al., 2002; Bresman et al., 1999; Vermeulen and Barkema, 2001).

Because of the growing importance and popularity of cross-border M&As, this study provides a review of the extant literature across different areas, with an explication of the theoretical bases used. Furthermore, we identify potential areas for future research. First, we compare important issues regarding domestic and international M&As to identify the differences, if any. Next, we examine the current research from the perspectives of cross-border M&As as a mode of entry, as a dynamic learning process, and as a value-creating (or destroying) strategy. In each section, we highlight the different theoretical perspectives adopted by scholars and emphasize important issues that require further examination. Finally, we summarize the literature and present implications for future research. The three tables summarize the main empirical research on cross-border M&As.

Herein, we define cross-border M&As as those involving an acquirer firm and a target firm whose headquarters are located in different home countries. However, it is important to note that “M&As of companies with their headquarters in the same country, although normally classified as domestic, often have cross-border issues of concern when they integrate operations located in different countries” (Child et al., 2001, pp. 7–8). Cross-border M&As are an implementation instrument for the firm’s international diversification strategy (internationalization). Cross-border M&As have been motivated by the necessary search for new opportunities across different geographic locations and markets in a turbulent and continuously changing environment.

2. Cross-border mergers and acquisitions

There is evidence suggesting that the rate of cross-border M&As is growing rapidly. In 1999, cross-border M&As were valued at approximately US\$1.4 trillion (nearly 40% of the overall acquisitions for that year), doubling the value of the preceding year (Hitt et al., 2001a,b). Several factors are responsible for fueling the growth of cross-border M&As. Among these factors are the worldwide phenomenon of industry consolidation and privatization, and the liberalization of economies.

The dynamics of cross-border M&As are largely similar to those of domestic M&As. However, due to their international nature, they also involve unique challenges, as countries have different economic, institutional (i.e., regulatory), and cultural structures (Hofstede, 1980; House et al., 2002). Cross-border M&As can be used to access new and lucrative markets, as well as expand the market for a firm’s current goods. Martin et al. (1998) found that suppliers often follow the international expansion of the related buyers. This is a strategic move to ensure that the transplanted buyer does not start a relationship with an alternate foreign supplier, which could later threaten the current supplier in its own domestic market. Thus, international M&As may be motivated to take advantage of a new opportunity or to avoid a possible future threat. Moreover, acquisitions of firms headquartered in other countries present an especially good opportunity for the acquiring firm to learn new knowledge and acquire new capabilities.

The pursuit of cross-border M&As is not without challenges. Firms engaging in cross-border M&As are faced with unique risks such as “liability of foreignness” (Zaheer, 1995) and “double-layered acculturation” (Barkema et al., 1996). Differences in national culture, customer preferences, business practices, and institutional forces, such as government regulations, can hinder firms from fully realizing their strategic objectives. Uncertainty and information asymmetry in foreign markets make it difficult for firms to adjust and learn from both the local market and target firm (Kogut and Singh, 1988; Zaheer, 1995). Thus, liability of foreignness and double-layered acculturation serve as barriers to learning new knowledge and capabilities in a cross-border M&A.

In pursuing cross-border M&As, firms consider various conditions, including country-, industry-, and firm-level factors, which relate both to the acquiring and to the target firm. At national and industry levels, factors such as capital, labor, and natural resource endowments, in addition to institutional variables such as the legal, political, and cultural environment, are highly significant. At the firm level, organizations pursuing an internationalization strategy need to identify and evaluate potential targets to acquire in the host countries. After completing an acquisition, firms generally must integrate the target firm into their operations to realize the potential value of their investment. Accordingly, in the following sections, we review the current literature on cross-border M&As in terms of cross-border M&As (1) as a mode of entry/diversification in a foreign market, (2) as a dynamic learning process, and (3) as a value-creating strategy.

Historically, economic perspectives such as transaction cost economics (TCE) and ownership-location-internalization (OLI) framework have provided the dominant theoretical foundations on which cross-border M&A research was based (Dunning, 1993; Williamson, 1975). This is not surprising, given that cross-border M&As were often examined in the context of FDI, with emphasis on entry mode decisions and resulting wealth creation. A major focus in this research has been the uncertainty and risk associated with different national cultures and institutional settings. This stream of work emphasized minimization of the risks and inefficiencies in entering the foreign markets in which transaction costs played a key role.

Recent research has examined the value of international expansion and cross-border M&As from the resource-based (RBV) and organizational learning perspectives (Barkema and Vermeulen, 1998; Madhok, 1997; Vermeulen and Barkema, 2001). Moreover, attention has gradually changed from the antecedents of M&As to the processes and outcomes of post-M&A implementation. These aspects are crucial to the comprehension of M&As (Haspeslagh and Jemison, 1991) but have not been carefully examined, particularly in international contexts (Child et al., 2001). TCE and OLI framework provide limited insights for M&A implementation processes. Given the increasing strategic importance of cross-border M&As, both from research and practitioner perspectives, we suggest that additional theoretical insights and broader foci of research are required.

3. Cross-border M&As as a mode of entry in a foreign market

There is an extensive literature on cross-border M&As as a potential mode of entry into a foreign market (e.g., Andersen, 1997; Brouters and Brouters, 2000; Harzing, 2002;

Kogut and Singh, 1988). In general, entry mode choices can vary among equity-based (e.g., greenfield, acquisition, joint ventures) and non-equity-based (e.g., export, alliance) modes (Delios and Beamish, 1999; Nakos and Brouthers, 2002; Pan and Tse, 2000).

Greenfield ventures involve establishing wholly owned subsidiaries in new geographic markets. As such, they provide the highest form of control over internal resources and knowledge but are also likely to have the highest costs (Hennart and Park, 1994). Costs involve both establishing the physical facilities and also building the relationships and networks with suppliers, distributors, and government units necessary to operate effectively in the new environment (Andersson et al., 1997).

Acquiring a foreign existing business allows the acquiring firm to obtain its resources, such as its knowledge base, technology, and human resources, and gain access to markets and to key constituencies at the local level. Cross-border M&As also provide high control over assets, which is less than that accorded by greenfield ventures but more than that provided by international alliances (Newburry and Zeira, 1997). M&As may be initiated to internalize an activity to reduce or avoid transaction costs.

International alliances provide access to important resources, along with the opportunity to share the costs and risks of entering new foreign markets. Therefore, when forming an alliance, the costs and risks to the firm are moderate relative to the other equity-based modes of entry. However, alliances offer lower control to the participating firms and require substantial transaction costs (cooperation and coordination) to realize their benefits.

Extant research suggests that the choice of a cross-border M&A as a mode of entry into a foreign market is often influenced by (1) firm-level factors such as multinational experience, local experience, product diversity, internal isomorphism, and international strategy; (2) industry-level factors such as technological intensity, advertising intensity, and sales force intensity; and (3) country-level factors such as market growth in the host country, cultural idiosyncrasies between the home and host countries, and the specific culture of the acquiring firm's home country (particularly in terms of uncertainty avoidance and risk propensity).

Accordingly, some researchers found that industry- and country-level factors, such as high or low market growth (Brouthers and Brouthers, 2000; Hennart and Reddy, 1997), low cultural distance between home and host countries, and low uncertainty avoidance in the home country (Kogut and Singh, 1988), increase the likelihood of entry via acquisitions. Furthermore, firm-level factors, such as the degree of product diversification (Wilson, 1980; Brouthers and Brouthers, 2000), multinational (Harzing, 2002) and local experience (Barkema and Vermeulen, 1998), relative investment size (Brouthers and Brouthers, 2000; Kogut and Singh, 1988), and relatively late entrance into foreign markets (Wilson, 1980), are also positively associated with acquisitions.

Nonetheless, using various theoretical frameworks, some scholars reported mixed results. For example, product diversification (Barkema and Vermeulen, 1998) and multinational experience (Barkema and Vermeulen, 1998; Brouthers and Brouthers, 2000; Wilson, 1980) have been found to be positively associated with greenfield startups over acquisitions. Some others (Kogut and Singh, 1988) found that those same factors had no effects on the entry mode choice. Some of the key research findings are summarized in Table 1.

Table 1
Summary of empirical research on cross-border M&As as a mode of entry

Theoretical perspective	Study	Sample	Dependent variable	Independent variable	Control variable	Key findings
RBV	Anand and Delios (2002)	2175 entries by British, German, and Japanese firms into the U.S. between 1974–1991	Mode of entry (acquisition vs. greenfield), JV was excluded (less than 10%)	Country level: relative technological intensity of home/host country, advertising intensity (host), sales force intensity (host)	Technological intensity (host), technological intensity (host + home), industry size, industry growth, U.S. concentration, home concentration, country dummy, industry dummy, year dummy	Relative (not absolute) R&D intensity, ad intensity, and sales force intensity increase the likelihood of acquisitions. Within sectors in which firms are making capability-seeking investments, the acquisition propensity is influenced by the absolute technological position of the sector. Brand motivates acquisitions only in sectors in which foreign firms are making investments that exploit a relative technological advantage.
TCE	Hennart and Reddy (1997)	175 entries of Japanese firms in the manufacturing industry into the U.S. in 1978, 1989	Mode of entry (acquisition 58% vs. JV 42%)	Firm level: indigestibility (size and divisionalized structure) (D), experience in the U.S. (# of years), cultural difference, target relatedness, parent relatedness	NONE	Joint ventures are preferred over acquisitions when the desired assets are ‘indigestible’, i.e., when they are commingled with nondesired assets because the U.S. firm

				Industry level: target industry concentration, target industry growth		owning them is large and not divisionalized. Joint ventures are also chosen when the Japanese investor has had no previous experience of the American market and hence seeks to avoid postmerger integration problems, when the Japanese investors and the U.S. partner manufacture the same products, and when the industry entered is growing neither very rapidly nor very slowly. The choice of entry modes can be a hierarchical process that begins with a decision between equity and nonequity modes. At this point, macro-level factors often play a role. At a lower level, managers focus on more micro-level factors such as specific contract terms, human resource issues, and distribution channels.
TCE	Pan and Tse (2000)	14,080 business activities by foreign firms in China between 1979–1998	Entry mode –Equity vs. nonequity –Variations within equity and nonequity modes	Host country factor: location factor, risk factor (credit risk rating) Home country factor: risk orientation (uncertainty avoidance), power distance	Annual import/export ratio of China versus the whole world of the home country, annual import/export ratio of each home country versus the whole world	

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Table 1 (continued)

Theoretical perspective	Study	Sample	Dependent variable	Independent variable	Control variable	Key findings
Institutional theory	Harzing (2002)	287 subsidiaries of 104 firms between 1995–1996	Mode of entry (acquisition vs. start-up), control, expatriates, local responsiveness	Host and home country: interaction between host and home countries (size of trade and length of diplomatic tie) Industry factor: advertise intensity and asset turnover Firm level: international strategy (global vs. multidomestic)	R&D intensity, diversification, foreign experience, cultural distance, relative size, year of investment	Multidomestic strategy, relative size and foreign experience are associated with acquisition entry mode. R&D intensity and cultural distance are positively related to greenfield start-up entry mode.

	Davis et al. (2000)	129 business units of U.S. firms in pulp and paper industry	Mode of entry (wholly owned, export, mixed), based on business unit's percentage of sales	Firm level: internal isomorphism (level of interdependence, level of autonomy of SBU) Country level: host country environment conditions (nine variables)	Strategy (cost vs. differentiation), international experience (number of years in foreign countries)	Business units that are highly influenced by their parent firm's institutional norms tend to use wholly owned entry modes, while business units that are influenced more by host-country environmental factors tend to use export as their entry mode. Parent company characteristics, namely its focus on internal isomorphism, are more important than host country factors in determining entry mode choice (252).
Organizational learning	Barkema and Vermeulen (1998)	829 foreign expansion by 25 Dutch firms between 1966–1994	Mode of entry (acquisition vs. start-up)	Firm level: multinational diversity (number of countries), product diversity (three digit SBI)	Ownership, ROE, firm size, cultural distance, local experience (number of pervious entries), GNP, country risk, time dummy, firm dummy	Multinational diversity is associated with start-ups rather than acquisitions. Product diversity has a curvilinear effect on the selection of start-ups and the effects are moderated by multinational diversity. Local experience is associated with acquisition.

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Table 1 (continued)

Theoretical perspective	Study	Sample	Dependent variable	Independent variable	Control variable	Key findings
Multiple: TCE, RBV	Hennart and Park (1993)	214 Japanese subsidiaries set up by acquisition or greenfield ventures between 1978–1980 and 1984–1987 in the U.S.	Mode of entry (acquisition, greenfield), the degree of post-acquisition problems	Firm level: R&D intensity, host country experience, objective of entry (i.e., diversification), the degree of diversification, advertising intensity, the degree of human resource endowment, relative size of subsidiary, the degree of leverage, commonness of products Country level: exchange rate, host country market growth, existence of other Japanese firms Industry level: concentration ratio	Parent's level of ownership on the subsidiary, combined impact of concentration and growth rate in the target industry (D)	Strong Japanese investors choose to enter the U.S. market by greenfield entry, while weak Japanese investors tend to enter the U.S. market by acquisition. Japanese firms choose acquisitions when the market has either very high or low growth, relative size of entry is large, and entry is into a different industry.

Multiple: TCE, institutional theory, national cultural differences	Kogut and Singh (1988)	228 U.S. entries by foreign firms between 1981–1985	Mode of entry (JV, acquisition, greenfield)	Country level: cultural distance, uncertainty avoidance	Diversification, country experience, multinational (number of countries), asset size, R&D, Adv., manufacture or service NONE	Diversification, country experience, and multinational experience have no significant impact on mode of entry. Cultural distance and uncertainty avoidance increase the likelihood of choosing JV or greenfield over acquisition.
	Brouthers and Brouthers (2000)	136 Japanese entries to western Europe after 1980	Mode of entry (acquisition vs. start-up)	Firm level: relative investment size (number of employees), firm's technological intensity (R&D expenditure to total sales), multinational experience (export ratio of parent), degree of diversification, product relatedness Country level: market growth, cultural distance, market with high uncertainty avoidance		Technology intensity, multinational experience, market growth, and uncertainty avoidance are positively related to entry by greenfield. Firm iversity and product relatedness are positively related to entry by acquisition.

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Table 1 (continued)

Theoretical perspective	Study	Sample	Dependent variable	Independent variable	Control variable	Key findings
Multiple: TCE, institutional theory, national cultural differences	Brouters (2002)	178 foreign entries of EU firms in 1995	(1) Entry mode (wholly owned, JV), (2) subjective measure of performance (financial/non)	Country level: general transaction costs, investment risk, legal restrictions, market potential, (mode of entry)	Firm size (number of total employees), international experience (number of years operating outside of home), industry type	General transaction cost variables are positively related to wholly owned firms whose mode choice could be predicted by the extended transaction model performed significantly better. . . than did firms whose mode choice could not be predicted by the extended transaction cost model (203).
Multiple: product life-cycle theory, institutional theory	Wilson (1980)	187 U.S. MNC between 1900–1967, 202 foreign MNC between 1900–1971	Acquisition ratio (the number of acquisitions divided by total subsidiaries)	Firm level: asset specificity Firm level: the degree of diversification, length of foreign experience, a ratio of implantations in less developed countries, a ratio of the number of implantation before 1960	Nationality (D)	Firms with greater diversification demonstrated a higher propensity of acquisition. Foreign experience and the ratio of pre-1960 implantation are associated with lower tendency of acquisition. Higher percentage of implantation in LCD is associated with lower ratio of acquisition

(D) Indicates dummy variable.

3.1. Theoretical perspectives on cross-border M&As as a mode of entry

Given the inherent risks of entering foreign markets (Johanson and Vahlne, 1977; Lee and Caves, 1998), such as information asymmetry (Kogut and Singh, 1988) or liability of foreignness (Zaheer, 1995), researchers have used various theoretical lenses to explain the entry mode choice (Andersen, 1997), although the majority have employed the TCE/OLI framework (Dunning, 1993; Williamson, 1975). Using the transaction as a unit of analysis, researchers suggested that firms adjust to the country and industry environments through appropriate entry modes (Andersen, 1997; Pan and Tse, 2000). The choice of the best entry mode for a successful internationalization strategy is determined by several firm-, industry-, and country-level (i.e., cultural and institutional) factors. However, different theoretical frameworks have examined the influences from each of the factors differently.

3.1.1. Firm- and industry-level factors influencing the choice of a mode of entry

At the strategic level, the mode of entry is influenced by the motives underlying the diversification action. If the investors desire complementary resources, an important determinant of the choice is the qualities of resources and their complementarity to the firms' current resource portfolio, as well as their degree of embeddedness in the targeted organization. For example, Hennart and Reddy (1997) employed a theoretical framework based on TCE and found that, when investing firms are primarily interested in a part of the target assets, they should choose an acquisition only if they can be disentangled from the other "less interesting" assets (the so-called "digestibility" of assets). The ability to separate the complementary assets from the others may be dependent on the organizational form of the target. Therefore, if the target firm is divisionalized, perhaps, the investor could acquire only the specific division whose assets are of major interest. On the contrary, if the assets are strictly embedded and distributed across the organization, a more rational choice would be investing in a joint venture.

Consistent with Madhok's (1997) call for examining the value side of the entry mode selection, recent research explicitly incorporates the importance of firm resources. For example, by employing a resource-based perspective, Anand and Delios (2002) identified technological capabilities that are fungible across countries, and brand and sales capabilities that are more specific to each market. Although their data were at the industry level, they argued that firms distinguish between capability-seeking and capability-exploiting acquisitions, depending on the availability and importance of the different types of resources.

The types of resources most commonly valued by investing firms are intangible and, mainly knowledge-based resources. However, identifying and managing intangible assets, such as technological capabilities and brand name, can be extremely difficult for investing firms. As such, equity-based modes seem to be preferred in industries where intangible assets are important and R&D and advertising intensity are high (Delios and Beamish, 1999).

By employing an organizational learning perspective, Vermeulen and Barkema (2001) argued that cross-border M&As are pursued to expand the knowledge base of the firm. They suggested that the exploitation of the firm's knowledge base through greenfield ventures

creates a path dependence that eventually produces inertia in a firm. In contrast, cross-border M&As broaden the firm's knowledge base and decrease organizational inertia.⁴

Another important determinant of the entry mode is the kind of advantage possessed by the investing firm. In other words, if its competitive advantage is based on a complex technology, the transfer of that technology to a foreign location could be very difficult.⁵ Training the acquired personnel in this case may be difficult, expensive, and potentially unsuccessful. Accordingly, high-tech firms could prefer a greenfield investment over an acquisition (Brouthers and Brouthers, 2000), as it would be easier and cheaper to train their own employees transferred to the foreign facility. Following this argument, Hennart and Park (1993) employed a multiple theoretical framework composed of TCE and RBV and found that Japanese firms possessing a strong technological advantage in their home market often choose greenfield investments over acquisitions. Such a choice helps them transfer the advantage to the foreign facility.⁶

Surprisingly, the firm's corporate strategy—as a determinant of the mode of entry—has been typically overlooked by the extant research. However, Harzing (2002) recently completed an analysis of the mode of entry choice based on the corporate strategy employed by the investing firm. She used institutional theory to analyze corporate strategy as an independent variable and found that corporate strategy had a strong explanatory power on the entry decision. Specifically, she found that firms pursuing a multidomestic strategy normally choose acquisitions, whereas firms pursuing a global strategy normally prefer greenfield investments.

Other factors that can influence the mode of entry choice are the level of prior experience of the investing firm, the size of the investment, and the product and market diversity of the investing firm. The extant research on these variables has provided conflicting results. For example, studies based on organizational learning stress the importance of the experience factor. The underlying principle is that learning is fostered by different experiences. Operating in different circumstances increases the variety of events and ideas to which a firm is exposed (Huber, 1991), leading to a more extensive knowledge base, stronger technological capabilities, and more innovative skills. On the contrary, firms dealing with a limited number of rivals and customers can be at risk in the long run, as they do not have the opportunity to learn from different foci. In sum, firms can benefit by operating in diverse national markets and product markets (multinational and multiproduct strategy).

In another study focused on organizational learning, Barkema and Vermeulen (1998) found a positive relationship between multinational diversity of investors and their choice of start-ups over acquisitions. Comparing their results with the preceding work of Kogut and Singh (1988), in which no relation was found between the variables, the authors

⁴ However, as pointed out by Hitt et al. (1991), M&A's intensity might be detrimental to the firm's innovating capabilities. As such, firms should normally pursue a combination of acquisitive and internal growth (Lamont and Anderson, 1985). More specifically, they should pursue a balance between exploration and exploitation of existing capabilities (Levinthal and March, 1993).

⁵ Transferring brands internationally can also be very difficult. If such transfers occur, they are slow and generally include only well-known brands. In fact, high levels of advertising intensity can represent an entry barrier preventing the firm from investing in that country. Given such constraints to the transfer, firms often prefer acquiring an existing brand (Anand and Delios, 2002).

⁶ This is one of the few studies whose variables are analyzed at the firm level.

argued that their analysis was more valid because they controlled for product diversity and had a better sample in terms of time and available countries (not solely U.S.). Furthermore, the authors found a curvilinear relationship between corporate diversity and expansion through start-ups. In fact, both operating in multiple countries and marketing multiple products can benefit from learning. However, an excessive amount of product lines can jeopardize the flow of information and knowledge exchange inside the entire organization. Therefore, the relationship is curvilinear, as learning decreases at high levels of product diversity.⁷ In contrast to these results, Hennart and Park (1993) and Cho and Padmanabhan (1995) found no relationship between firm experience, diversity, and diversification mode choice, while Brouthers and Brouthers (2000) found that a high level of experience influenced the investor's preference towards greenfield investments.

Regarding the influence of the investment size on the mode of entry choice, Brouthers and Brouthers (2000) found that firms prefer greenfields when investments are relatively small, whereas other scholars (Hennart and Reddy, 1997) found exactly the opposite,⁸ as large firms are difficult to integrate. In contradiction to the above findings, Cho and Padmanabhan (1995) found no relationship between investment size and mode of entry.

The mode of entry choice can also be influenced by other firm-level factors, such as time pressure. If the investor has a short amount of time to penetrate the foreign market, the only available choice will be acquiring an existing firm. In fact, greenfield entries require a much slower and more moderated approach. Hennart and Park (1993) found that the timing of the investment influenced the mode of entry choice. Specifically, if the target market has a high growth rate, the choice of an acquisition allows the investor to penetrate it more quickly.

3.1.2. Country-level factors influencing the choice of mode of entry

An important cultural issue influencing the mode of entry choice is the ability to integrate resources and particularly human resources. The problem of integrating different cultures has been examined in the literature, and the majority of scholars argue that high levels of cultural distance can prevent the success of the integration (Brouthers and Brouthers, 2000; Hennart and Reddy, 1997; Kogut and Singh, 1988). As such, cultural distance is a useful proxy for a firm's country risk; in fact, it indicates the differences between the investing firm and the target country and, therefore, represents the degree of the investor's strategic advantages likely to apply to a different location. For example, employing a multiple theoretical framework based on TCE, institutional theory, and "national cultural difference" (Child et al., 2001, p. 40), Kogut and Singh (1988) found that cultural distance between the investor and target country affected the mode of entry choice. Specifically, the higher the distance, the more likely the investor will prefer a joint venture (also Hennart and Reddy, 1997) or a greenfield investment over an acquisition. They underlined that the main disadvantage of such cultural differences would be reflected in the high management costs originating during the employees' integration.

However, using the same theoretical framework, Brouthers and Brouthers (2000) arrived at opposite results. They affirmed that when a low level of cultural distance

⁷ They also found it to be moderated by multinational diversity.

⁸ The bigger the target size the riskier the investment. Consequently, firms should avoid acquisitions when targeting large firms and instead choose a joint venture.

exists, investing firms prefer greenfield entries over acquisitions; such a strategy allows them to enter the market without the specific aid of a local firm. On the other hand, when the cultural distance is larger, firms should probably opt for an acquisition to provide them a higher level of legitimacy in the host country (Brouthers and Brouthers, 2000).

At the country level, the issue of legitimacy is also important to foreign entrants. Legitimacy is necessary to gain acceptance in the foreign location. Legitimacy is most important to the customers, the actors of the value chain, and the local institutions. Institutions define the rules of the game, including the laws and regulations applied in the host country (Davis et al., 2000). The institutional structure may provide barriers to entry, such as legal restrictions on ownership. Foreign governments sometimes adopt restrictions to protect domestic owners from outsiders. Using a theoretical approach based on TCE, institutional theory, and national culture, Brouthers (2002) found that firms entering markets characterized by high legal restrictions or perceiving a high level of investment risk tended to use joint ventures as the preferred entry mode. Because of such constraints, institutional theory suggests that the firm's ability to exploit (Morck and Yeung, 1991) or improve (Caves, 1996) its capabilities abroad may vary, depending on the institutional contexts in which it invests. Using a similar theoretical framework, Wilson (1980) analyzed the relationship between experience and institutions. He argued that "companies without significant foreign experience may find it necessary to buy existing firms for the purpose of acquiring the capability of dealing with the local environment" (Wilson, 1980, p. 63).

Considering the variability of local contexts, researchers should consider the local institutions in the theoretical frameworks for their research. Brouthers (2002) suggested that the choice of the best international mode of entry is dictated by a combination of transaction cost, institutional (legal restrictions), and cultural variables (investment risks).

Based on institutional theory, Davis et al. (2000) argued that foreign subsidiaries bear a double isomorphic pressure: internal and external. Both pressures influence the mode of entry choice. The first kind of pressure relates to the parent firm, while the second relates to the host country. They found that when firms are highly influenced by the parental institutional norms, they are pushed to conform to their institutional internal system (homogeneity of organizational practices and structures) and tend to prefer wholly owned entry modes, such as acquisitions. Instead, when firms are more influenced by host country environmental factors, they tend to prefer exports as their entry mode. In general, partially owned forms of entry give the investor a higher chance of adaptation to the local environment. Partial ownership (or no ownership exports) may be especially important in countries in which strong regulations complicate the legitimization of the foreign investor. However, Davis et al. (2000) found that internal isomorphism is more important than external isomorphism for entry mode choices.

3.2. Research needs on cross-border M&As as a mode of entry

Previous research assumes the advantages of international expansion as given. However, there are several important research issues regarding cross-border M&As as a mode of entry that need to be examined further. First, as discussed above, while country- and industry-level findings are relatively robust, firm-level findings are more mixed. For example, the degree of international experience, often measured by the export ratio or the

number of countries in which the focal firm operates, has been found to be associated with both acquisitions and greenfield ventures (Brouthers and Brouthers, 2000; Barkema and Vermeulen, 1998; Kogut and Singh, 1988). Having previous experience in international markets has been shown to be a consistent advantage for investing firms, thereby exerting a decisive influence on the entry mode selection (Beckman and Haunschild, 2002; Agarwal and Ramaswami, 1992; Anderson and Gatignon, 1986). Such an advantage is exemplified by the development of processes and systems for managing international operations. The investing firm's international experience should help it to learn different business and cultural practices in several host countries. The knowledge gained from experience, in turn, helps the firm to select the acquisition mode and effectively integrate the target firm. Alternatively, experience may also increase the firm's capability to start or establish business activities without help from others. For these reasons, we need more research on the experience factor and its influence on the behavior of investing firms. Additionally, the relationship between experience and strategy formulation has to be examined with more fine-grained measurement. Specifically, we need to understand how firms internalize the experience advantage and create organizational routines based on this advantage.

Additionally, we need more research to analyze the relationship among the proprietary knowledge of the acquiring firm, its transferability, and its influence on the mode of entry. As we previously mentioned, some firms with a high degree of technological capabilities may prefer a greenfield venture to an acquisition (Brouthers and Brouthers, 2000), while others choose an acquisition with the primary intent of protecting their specific competences from potential local competitors. Relying on local firms for business activities sometimes involves opportunistic behavior by local partners. They could engage the focal firm in a dangerous race to learn with the worst consequence of the creation of a new competitor outside that specific local market. Accordingly, when entering foreign markets with high transaction costs, firms often prefer equity-based modes (Brouthers, 2002; Pan and Tse, 2000).

Furthermore, although the relative size of the investment is often reported as a determinant of acquisitions, it is not clear whether a firm selects the mode of entry after deciding the total value of the investment. Finally, it is not clear whether research findings related to large multinational enterprises can be extended to small- or medium-sized firms (Erramilli and D'Souza, 1993).

These mixed results are understandable, given that earlier studies used a TCE/OLI framework and often focused on country- and industry-level factors that influence transaction costs (Madhok, 1997). Following this argument, Shaver (1998) suggested that past research often assumed the choice of strategy and entry mode, thereby ignoring the firm-level resource differences. The call of Madhok (1997) for an organizational capability framework is important and consistent with the current emphasis on the resource-based view in the strategic management field.

Considering the importance of firm resources and the resulting strategic choices, including cross-border M&As, there are at least three more issues worthy of note. First, acquiring firms need to select target firms that have complementary resources. Wilson (1980) suggested that the choice of cross-border M&As is likely to be affected by the availability of target firms in the host country. While past research largely assumed that

firms can freely choose between alliances, start-ups, or M&As, new research should first consider the existence of an available and appropriate target firm that can be acquired.

Second, most measures of the firm-level resources are crude. While the resource-based view of the firm stresses the importance of value, uniqueness, nonduplicability, and heterogeneity of firm resources and capabilities, measures such as the export ratio, number of years of experience, or number of countries assume linear and identical learning capabilities across firms. Moreover, these measures are “inputs to the creation of capabilities and indicate little if anything about resultant changes in capabilities” (Mowery et al., 1996, p. 82). While measuring the unique value of firm-level resources and capabilities remains a challenge, more fine-grained measures will add value to empirical tests.

Finally, as Andersen (1997) points out, research on foreign entry mode choice has been mostly static. Moreover, many researchers assume that different entry modes, such as greenfield ventures, contractual alliances, joint-ventures, and M&As, are independent of one another. For example, Hoffmann and Schaper-Rinkel (2001) state that the entry mode choice is context specific. However, with increased globalization and firms’ learning, the choice of the mode of entry is likely to evolve. For example, international joint ventures are frequently terminated by the firm’s acquisition of the other partner’s stake (Inkpen and Beamish, 1997). Although researchers acknowledge that joint ventures have an option value, particularly in the context of asymmetric information (Kogut, 1989), little research has examined the dynamics of interactions across those strategic alternatives.⁹ Acquisitions could also provide the base to further develop business in the new host market. More dynamic and longitudinal perspectives are needed to expand the scope of entry mode choice research and more accurately reflect the dynamics of the global competitive environment in the examination of post-acquisition issues.

4. Cross-border M&As as a dynamic learning process

The strategic choice of a specific mode of entry is crucial to the success of the internationalization strategy; there are several ways to enter a foreign market, and each has its own strengths and weaknesses. Once the firm chooses to enter the foreign market by making an acquisition, the search of the most suitable target begins. There are multiple processes involved in M&As, such as due diligence, negotiation, and integration. All pre- and post-acquisition processes are dynamic and involve learning. In fact, in each of them, the acquirer should improve its knowledge of how to use each of the processes to reach a successful conclusion. Prior experience, if any, can of course be helpful; past mistakes can be avoided as the knowledge from past acquisitions is applied.

Despite the importance and complexity of acquisition processes in a cross-border context, research on these processes is rare. This is surprising, given the risks involved in cross-border M&As (Lee and Caves, 1998; Zaheer, 1995). In the following section, we analyze the extant research presenting the various findings following a temporal sequence

⁹ As an exception, Reuer (2001) reported that abnormal returns associated with joint venture partner buyouts are positively related to the R&D intensity of the parent and multiple ties with the partner and negatively related to cultural distance between the partners.

that begins with the analysis of the due diligence process, moves through negotiation, and ends with the integration process.

Some of the key research findings are summarized in [Table 2](#).

4.1. Theoretical perspectives on cross-border M&As as a dynamic learning process

4.1.1. The due diligence process in cross-border M&As

To identify appropriate acquisition targets and to negotiate and effectively complete acquisitions requires a thorough due diligence process. This process has features similar to the due diligence for domestic M&As. However, it is complicated by a few elements that appear even more crucial in cross-border M&As ([Angwin, 2001](#)): These elements include the different institutional environments between the two firms' home countries and their two different cultures (either at national and corporate levels). Firms are embedded in a system of social and cultural norms that often affect the processes and outcomes of cross-border M&As. In general, differences in the institutional environments may be based on different regulations, accounting standards, value systems, etc. Differences in the national cultures largely imply different individual values, risk propensity, acceptance of uncertainty, etc., while differences in corporate cultures suggest different organizational routines, managerial practices and styles, communication systems, etc.

“Due diligence is intended to be an objective, independent examination of the acquisition target. In particular, it focuses upon financials, tax matters, asset valuation, operations, the valuation of a business, and providing assurances to the lenders and advisors in the transaction as well as the acquirer's management team” ([Angwin, 2001, p. 35](#)). The process is intended to provide the acquirer with adequate information about the value and risks associated with the target. Cross-border M&As require special attention to topics such as exchange rates, local taxes, local accounting standards, foreign government potential trade regulations (dividends, fees, royalties), risk of expropriation, and debt/equity ratios that might be imposed by the foreign government ([Kissin and Herrera, 1990](#)).

During the due diligence process, the focal firm must learn, as much as possible, about the new/unknown environment to plan the actions required for the acquisition's implementation. The acquirer will likely face several challenges during the post-acquisition process, especially to integrate the local target firm.

Due diligence is a complex process in all M&As ([Hitt et al., 2001a,b](#)). However, in cross-border M&As, the evaluation process of the potential target is even more complicated at all levels ([Kissin and Herrera, 1990](#)). At the firm level, differences in accounting standards and fluctuating exchange rates between different countries may cause further difficulties in the evaluation of the target firms' financial assets. Furthermore, the due diligence process should go beyond the mere examination of the financial health of the target firm, providing a thorough analysis of its intangible assets and resources. This process may require an understanding of the educational system, skills, and capabilities of the work force in the foreign country. At national and industry levels, the due diligence process must provide an understanding of the institutional environment in which the target firm is located, such as government regulations, to effectively respond to potential local constraints, particularly in specific industries such as those with high technology standards, in which regulations can be extremely sensitive. In this sense, [Hall \(1992\)](#) stresses the relevance of the target's reputation

Table 2
Summary of empirical research on cross-border M&A as a dynamic learning process

Theoretical perspective	Study	Sample	Dependent variable	Independent variable	Control variable	Key findings
Upper echelons theory	Krug and Hegarty (2001)	273 managers (182 stay, 91 leave) in 90 U.S. firms acquired by foreign firms and 54 U.S. firms acquired by U.S. firms between 1986–1989	Executive stays or leaves after merger	Top management perceptions, merger announcement, TMT interactions, long-term effects, family issues, system changes	Foreign acquisition, hostile acquisition, public target, pre-acquisition growth rate, post-acquisition growth rate, senior level	Perceptions of acquired firm managers regarding merger announcement, top management team interactions, and long-term effects influence whether they stay or leave.
RBV	Larsson and Finkelstein (1999)	61 M&As (16 cross-border) during more than a 30-year period	Synergy realization	Management style similarity, cross-border combinations, relative size, combination potential, organizational integration, employee resistance	Case data collection, case perspective, case publication, case calendar year, case period length	Strategic differences can create opportunities for synergistic complementarities by combining different operations that enhance the competitive positions of the resulting entity (15). Cross-border M&A reduced employee resistance.
Organizational learning	Morosini et al. (1998)	52/400 MNC that conducted acquisition in Italy between 1987–1992	Performance (% growth of sales over the 2-year period following acquisition)	National cultural distance	Relatedness, size of acquisition, post-acquisition strategy, uncertainty avoidance, year, industry	Both cultural distance and uncertainty avoidance are positively associated with post-acquisition sales growth. The size of acquisition is negatively associated with post-acquisition sales growth.
	Vermeulen and Barkema (2001)	1349 observations (new affiliates) by 25 Dutch firms between 1966–1994	Survival rate of subsidiary, acquisition/greenfield	Number of preceding greenfields and acquisitions, preceding greenfields in familiar/new markets, preceding acquisitions in familiar/new markets	Multinational diversity product diversity, firm size, ROE, cultural distance, foreign/domestic, GDP/capital, related/unrelated, JV, time, firm (D)	Preceding greenfield entries decreases survival rate by increasing simplicity and results in increases acquisitions later. Preceding acquisition increase survival by expanding knowledge base and results in increase of greenfield to exploit the knowledge base.

National cultural differences	Very et al. (1997)	42 French and 64 British acquired firms between 1987 and 1999	Postmerger performance of acquired firms	Perceived cultural compatibility, removal of autonomy, relative size	Relatedness, age of merger, nationality of acquired firm (D)	Theory of “relative standing” can be applicable to non-U.S. firms. British acquired firms perceived domestic mergers to be particularly incompatible. French acquired firms feel strong compatibility with the U.S. buyers.
	Lubatkin et al. (1998)	35 French and 48 British firms that were acquired either by French or British firms between 1987–1989	(Multiple analysis of covariance model)	Managerial transfer, structural control, systems control (resource/strategic), socialization control	Merger relatedness, target growth, relative size, local resource, age of the merger, merger type (domestic/cross-b)	French acquiring firms rely more on managerial transfer than British firms. French firms are higher in strategic control than British firms. The British and French acquiring firms appear to adhere to their own unique mix of control structures, regardless of whether they are merging domestically or cross-nationally.
Multiple: national cultural differences, corporate governance	Calori et al. (1994)	Data collected on 25 British firms acquired by French Firms, 21 British firms acquired by U.S. firms, 16 French firms acquired by British firms, and 13 French firms acquired by U.S. firms. Acquisitions were made between 1987–1989.	Country of the buyer (discriminate analysis), performance of an acquired firm (regression)	Formal control: control of operations, control of resources, strategic control Informal control: informal communication, personal efforts from the buyer, control by procedure	Relative size of an acquired firm to parent, pre-acquisition performance, relatedness, the degree of environmental uncertainty, the degree of local resource availability, elapsed time after the acquisition	The French exercise higher formal control by centralization than the Americans with the exception of formal control over individual managers and financial resources. Americans exercise higher informal control through teamwork than the French. Americans exercise higher formal control through procedures than the British.

(continued on next page)

Table 2 (continued)

Theoretical perspective	Study	Sample	Dependent variable	Independent variable	Control variable	Key findings
Multiple: TCE, national cultural differences	Lee and Caves (1998)	125 U.S. acquirers of foreign firms (>5%) between 1980–1990	Uncertainty = variance of profit (ROS) changes of acquiring firms (prior, 2nd–5th year)	Relative size, product diversification, first investor, location, firm size, lagged profit, industry R&D intensity, industry Ad intensity, firm-industry R&D intensity, firm-industry AD intensity	NONE	FDI is risky. For large acquisitions, the profit change reveals a significant transaction cost in the second year and in the third year. Large and diversified acquisitions both cause transitory increases in the profit dispersion, although product diversification subsequently tends to reduce uncertainty.
Multiple: TCE, macro-economics	Dewenter (1995)	M&As announced by 116 chemical industry firms and 268 retail industry firms between 1978–1989	Abnormal returns	Firm level, transaction characteristics: hostility, equity, and rival bidders, macro level, exchange rates, tax rates	Interindustry differentials	While there is no significant difference within industry mean takeover premia levels, the sensitivity of takeover premia levels differs across buyers. Market reaction to the buyer's nationality is closely tied to the transaction's characteristics.

Multiple: corporate governance, national cultural differences, organizational learning	Krug and Nigh (1998)	210 U.S. target firms acquired by a non-U.S. acquirer between 1986–1989	Top-management departures from acquired U.S. firms	National level: cross-national cultural differences Firm level: international integration across a firm's subunits, acquiring firm's international experience, acquiring firm's U.S. acquisition experience, pre-acquisition performance of the target company	NONE	Top management departures in U.S. companies acquired by a non-U.S. firm are positively associated with the cultures between the U.S. and the home country of the foreign MNC, the level of international integration among the subunits of multinational firms within the target industry, the foreign acquirer's U.S. acquisition experience, and the interaction between target company pre-acquisition performance and international experience of the foreign acquirer. Top management departures in U.S. companies acquired by a non-U.S. firm are negatively associated with the pre-acquisition performance in the U.S. target company, the interaction between the U.S.-foreign country cultural distance and the international experience of the foreign acquirer, and the interaction between target company pre-acquisition performance and the U.S. acquisition experience of the foreign acquirer. In domestic M&As, the higher the corporate cultural differences, the lower the autonomy removal of the acquired company by the acquiring one. In international M&As, national cultural differentials better predict stress, negative attitudes toward the merger, and actual cooperation, than corporate culture differentials do.
Multiple: national cultural differences, cultural fit	Weber et al. (1996)	U.S. targets in eight international M&As and eight domestic M&As between 1985–1987	National and corporate cultural fit at both domestic and international level, data analysis through the coplot method	National culture difference, corporate culture difference, autonomy removal, stress, Attitudes toward cooperating with other TMT, group attitude toward new organization, commitment, cooperation	NONE	

(D) indicates dummy variable.

as a major factor in the decision to acquire. In fact, the history of a firm in responding to the country requirements represents a distinctive strength that the investor should always consider in selecting the target. In general, the due diligence process largely conforms to organizational learning theory and exploratory learning, specifically (March, 1991). While an original structure to the approach is needed to ensure that all major areas are evaluated, effective due diligence also has an exploratory nature. If some information is identified that poses further questions, answers to them must be pursued even if they require movement outside of the original structure. Thus, good due diligence can be described as semi-structured, containing both primary and exploratory inquiries.

Therefore, considering the complexity and variety of the issues regarding the analysis of a foreign target, firms often seek help from financial and legal advisors in the country where the target firm is headquartered. Recent work by Angwin (2001) examines how managers in Europe use advisors to value the due diligence process. He conducted a survey of European firms' top executives regarding national perspectives on due diligence. His results show that interpretations of the due diligence process vary across managers of different countries. Specifically, managers from separate European countries stated diverse primary objectives for the due diligence process (i.e., help in the negotiation, insight into the existing management, evaluation of the assets, assess cultural fit, help to plan integration, commercial insight into the market). Moreover, he found that all aspects of the due diligence process were conducted by the acquiring firm, although acquirers of different nationalities tended to rely on external advisors for specific issues (i.e., financial), and the extent to which advisors were used varied considerably. The use of advisors injects external knowledge into the process. Using this approach should help avoid path dependence in learning during the due diligence process.

Target selection is a crucial concern in the due diligence process. In fact, depending on the acquisition motives, the focal firm searches for target firms with different characteristics such as size, complementary resources, local network ties etc. Despite the importance of this process, we lack studies specifically focused on the due diligence involved in cross-border M&As. On the contrary, research on alliances and joint ventures examines in depth the issue of partner selection (Gulati, 1995; Hitt et al., 2000). For example, in studying the international partner selection of firms from emerging and developed markets, Hitt et al. (2000) found that emerging market firms stress financial, technological, and intangible assets, while developed market firms search for resource exploiting opportunities. In examining alliance formation in a longitudinal setting, Gulati (1995) found that the social relationship originating from an initial alliance increases the likelihood of a future alliance between the same firms.

The selection of the right target firm for acquisition can provide the acquirer with a strong local network of relationships in the host country. This important topic needs to be further examined. Related to this topic is the analysis of the target firm's social capital, particularly in situations of foreign market uncertainty and information asymmetries. While there is some anecdotal research dedicated to practitioners¹⁰ (e.g., Kissin and Herrera, 1990;

¹⁰ For instance, Nevin (1990) describes the detailed processes of Bridgestone's acquisition of Firestone in 1988. Here, while economic benefits were important for Bridgestone, the deal was first initiated by Neil, Firestone's CEO, through his personal connection with Sony's Akio Morita.

Sebenius, 1998; Emerson, 2001), virtually no scholarly research exists in this area. Therefore, more systematic research is needed to unpack the complexities of the due diligence process in cross-border M&As.

4.1.2. *The negotiation process in cross-border M&As*

After the target firm has been selected and the initial due diligence process has been completed, the acquiring firm often has to pay a premium over the price of the acquisition to conclude the deal. Thus, the negotiation process becomes important. There is a richer amount of studies on this topic, especially the negotiation process for domestic M&As.

Researchers found that foreign buyers usually pay high premiums in acquiring U.S. firms relative to U.S. buyers (Harris and Ravenscraft, 1991; Inkpen et al., 2000). For example, Inkpen et al. (2000) examined 11,639 technology-based M&As of U.S. firms (10,309 U.S. buyers, 446 European buyers) and found that European buyers paid a premium about three times higher than U.S. buyers did. Harris and Ravenscraft (1991) examined 1273 acquisitions of U.S. firms between 1970 and 1987 (1114 domestic and 159 cross border) and found that the target firms of foreign buyers enjoyed higher wealth gains than did the target firms of U.S. buyers. They suggested that the higher premium could be the result of overly aggressive bidding by foreign buyers or of a strong will to expand into the U.S. market to exploit its general advantages (compared with their home markets), such as market size, well-developed capital markets, political stability, or tariff and tax differences between the United States and the bidders' home countries.¹¹ However, in contradiction to their results, Dewenter (1995) found that there is no significant difference in the level of premiums paid by foreign and domestic bidders. Using an integrated theoretical approach based on transaction costs and macroeconomics, he found that while there is no significant difference in the within-industry mean takeover premia levels, the sensitivity of takeover premia levels differs across buyers. He found that foreign investors pay a higher premium in case of hostile transactions, but also pay less when there are rival bidders. Therefore, market reactions to the buyer's nationality are closely tied to the transaction's characteristics.

Given the uncertainty associated with foreign investments, professional firms, such as investment bankers, play an important role in advising and closing many of the cross-border deals (Angwin, 2001; Kosnik and Shapiro, 1997). Although issues such as agency conflicts between investment banks and client firms have been addressed by scholars (Kosnik and Shapiro, 1997) and in the popular business press as well, research on the roles of investment bankers in both domestic and international M&As is still limited.¹² Given

¹¹ However, up-front investment without appropriate knowledge of the target and its market may lead to overpayment (Inkpen et al., 2000), in terms of both total price and premium, and integration problems.

¹² Haunschild and Miner (1997) examined this topic, but relative to domestic M&As. They argued that selecting investment bankers involves uncertainties and found that firms tend to imitate other firms' selection of investment bankers based on frequency, traits, and outcomes. They also found that, under uncertainty, companies imitate common and salient practices regardless of their outcomes: "In our sample, 'success' (very low premiums) increased imitation, but 'failure' (very high premiums) not only failed to reduce imitation, it actually increased it" (Haunschild and Miner, 1997, p. 492).

the high premiums paid by foreign buyers and the information asymmetries involved in most cross-border M&As, research on the roles of investment bankers and other professional firms (e.g., consultants, law firms, and accounting firms) would add significant value to the literature and likely suggest important managerial implications.¹³

4.1.3. *The integration process in cross-border M&As*

The integration process is highly critical for the success of most acquisitions,¹⁴ either domestic or international (Child et al., 2001). While research on post-M&A integration, especially in cross-border M&As, is limited, scholars have provided some important insights on this topic. The three major findings in this line of research are:

- (1) The cultural differences associated with acquirer and acquired firms' home countries create additional challenges for post-M&A integration.
- (2) The success/performance of acquisitions depends on the integration process and adopted control systems.
- (3) The preferences for types of integration processes and control systems are different depending on the acquirers' nationality.

Post-M&A integration is a potential major challenge in most acquisitions, regardless of whether they are domestic or international. However, postmerger integration is likely to be more difficult to achieve between firms with home bases in different countries. The challenges of integration are affected by the corporate cultural differences between the two firms and by the institutional and cultural distances between the two home countries. The problem of integrating cultures at a double level is referred by Barkema et al. (1996) as "double-layered acculturation". Of course, the potential for conflict on cultural bases depends on the degree of integration required (Nahavandi and Malekzadeh, 1988): the greater the integration, the closer the coordination necessary to implement it successfully and, therefore, the greater the importance of cultural differences. Strongly related to this concept, Chatterjee et al. (1992) found that the degree of cultural differences negatively affected shareholders' value when strong integration was required. Building their study on a theoretical framework based on national cultural differences and the potential fit or complementarity between the characteristics of the two cultures, Weber et al. (1996) found that differentials in corporate culture affected the cooperation between the two firms' top managers. As such, they found negative attitudes toward the merger when there were greater differences in corporate culture.

¹³ In fact, in observing the disastrous acquisitions of U.S. firms during the 1950–1986 period, Porter (1987, p. 46) argues, "only the lawyers, investment bankers, and original sellers have prospered in most of these acquisitions, not shareholders".

¹⁴ Haspeslagh and Jemison (1991, p. 302) explain why pre-acquisition factors may not be primary predictors of the success of an acquisition: Relatedness gives an ex ante indication of potential sources of value creation, but it does not determine the nature, scope, and probability of the actual value creation. Taking synergies from relatedness for granted is symptomatic of a more fundamental weakness of the strategic school: its disproportionate emphasis on the strategy task, leaving aside practical impediments to value creation, such as interpersonal, interorganizational, and intercultural friction.

The cultural and institutional contexts in which firms operate have a significant effect on the strategic orientations developed and applied by top managers (Hitt et al., 1997; Child et al., 2001). For example, Hitt et al. (1997) found important differences in the strategic orientations between Korean and U.S. top executives: while U.S. top executives placed strong importance on financial returns, Korean executives emphasized growth more than returns.

Research has also shown that managers from different countries are likely to implement different control systems and use different managerial practices in acquired firms. By employing a theoretical framework based on national cultural differences and governance, Calori et al. (1994) examined the use of control mechanisms and showed that acquirers are influenced by their national culture (national administrative heritage). Moreover, Lubatkin et al. (1998) found that French acquiring firms rely more on managerial transfer and use more strategic control than do British firms. In characterizing different integration styles, Child et al. (2001) call American acquirers “absorbers”, Japanese acquirers “preservers”, and French acquirers “colonialists”. They found that any set of controls could be successful if managed effectively. Additionally, recent surveys have shown that countries differ deeply in the types of corporate governance mechanisms used (Gedajlovic and Shapiro, 1998; Short, 1994). Perhaps some cultures are more prone to taking opportunistic actions. As a result, agency theory may apply more readily in individualistic cultures, such as the United States, than in more collectivistic cultures common in Asian countries. Given this scenario, governance problems related to post-M&A integration require more study.

Calori et al. (1997) suggested that, at a national level, social and political institutions form the context in which managerial practices develop and are applied. Thus, differences in institutions across diverse countries can result in distinct managerial practices. National culture, government regulations (and support for individual industries), access to financial resources through financial institutions, and the general resources available in the environment (environmental munificence) all contribute to the institutional infrastructure (Zahra et al., 2000; Newman, 2000; Hitt et al., 2004). Where the institutional distance (difference) between two countries is high, conflict between managers and employees of the two firms is likely to increase. Very et al. (1996) found that acculturative stress was more likely to occur in cross-border acquisitions than in domestic acquisitions. This form of stress was found to be disruptive and a key obstacle to integration. Specifically, they found acculturative stress to be associated with lower commitment and cooperation on the part of the acquired firm employees thereby increasing these executives’ turnover. As a direct consequence, high levels of acculturative stress resulted in lower levels of financial success.

Supporting the outcomes noted above, Weber et al. (1996) argued that national cultural differences produce more stress, negative attitudes toward the merger, and less cooperation than corporate culture differentials do in cross-border M&As. Krug and Hegarty (2001) pointed out that executives of firms acquired by foreign organizations are more likely to leave than those acquired by domestic firms. The loss of these executives viewed from a RBV often represents a serious reduction in valuable resources, thereby decreasing the value of the firm acquired. Employing an upper echelons theoretical perspective, Krug and Hegarty (2001) stressed the importance of being sensitive to the perceptions of the merger by the acquired firm executives, the top management interactions, and the long-term

effects of the transaction. This idea is consistent with the argument of Hitt et al. (2001a,b) that successful cross-border M&As require managers and other key personnel in the acquiring firm to develop a global mindset. A global mindset helps managers view the acquired firm not from an idiosyncratic cultural perspective, but from a broader perspective recognizing the value of different cultural perspectives.

While both corporate and national cultural distances create substantial challenges in integrating the acquired firm, they also present potential opportunities when analyzed with the lens of the resource-based view. For example, using a case survey method to examine 61 large M&As, Larsson and Finkelstein (1999) suggest that strategic differences can facilitate synergy creation. They further argued that relatively large M&As are often more successful not because they attract appropriate managerial attention, but because they offer greater synergy potential. Additionally, Harrison et al. (1991, 2001) found that complementary resources produced the highest performance in acquisitions (and alliances).

Cultural distance also presents interesting opportunities when analyzed with the lens of the organizational learning theory. For example, in an analysis of 52 firms that conducted acquisitions in Italy, Morosini et al. (1998) found a positive relationship between cultural distance and post-acquisition performance. They argued that “given uncertainty as to the routines and repertoires that will be valuable in the future, a multinational corporation may increase the probability of possessing a greater variety of potentially valuable routines and repertoires by acquiring a firm in a culturally distant country” (Morosini et al., 1998, p. 138). Therefore, the greater these differences, the higher the probability that a firm may learn and/or gain value from the acquired assets (Vermeulen and Barkema, 2001). Using the same theoretical approach, Vermeulen and Barkema (2001) also found that cross-border M&As are an important source of new information and capabilities, which provide strategic flexibility for acquiring firms. As a result, cross-border M&As with greater cultural and institutional differences provide enhanced opportunities, but also larger challenges in realizing these opportunities.

4.2. Research issues on post-cross-border M&A integration

Importantly, research on post-acquisition activities is limited. Child et al. (2001, p. 24) provide an effective description of the problem: “the study of post-acquisition change has been rather fragmented. Most attention has been given to human resource issues, which include HR planning and downsizing, training, and changes in communication¹⁵ and reward systems. There is remarkably little research into other changes following acquisitions.” Given the risk involved in cross-border M&As and the difficulties of “double-layered acculturation” (Barkema et al., 1996), more research is clearly needed on post-acquisition integration. In particular, although national cultural differences attract major interest, many other issues, such as differences in corporate governance mechanisms, should also be considered. In the following paragraph, we suggest some of the topics that need to be clarified by scholars.

¹⁵ From their case studies, Bresman et al. (1999) suggested that communications, visits, and meetings facilitated the transfer of knowledge between acquirer and acquired firms.

First, it has become increasingly common for firms actively engaged in M&As to form integration teams. The purpose of these integration teams is to plan, coordinate, and implement the integration process (Inkpen et al., 2000). Although the composition and responsibility of integration teams may vary, developing and using an effective integration team for cross-border acquisitions is important. In particular, a better understanding of the human factors inside these teams and of the processes that they use to improve integration is needed. Moreover, these teams often are guided by integration leaders, whose competences go beyond those of the gatekeepers outlined by Haspeslagh and Jemison (1991). Such leaders' qualities reflect those of the innovation champion within firms (Shane, 1995). However, we lack theoretical and empirical research on integration teams and their leadership; there are only few articles on this topic, and they are largely dedicated to practitioners (Ashkenas and Francis, 2000; Ashkenas et al., 1998).

Second, firms that make multiple cross-border acquisitions can learn from their prior experiences. Research has shown that firms learning from their prior acquisition experience are more likely to make successful acquisitions (Hitt et al., 1998a,b). Therefore, we need to understand how experienced acquirers learn and apply such knowledge in an effective manner. Hayward (2002) found that firms learn best from prior acquisitions that are not highly similar or dissimilar to the focal acquisition. His findings may relate partly to absorptive capacity. For example, if the prior acquisitions are significantly different from the current acquisition, the knowledge gained may not apply to this specific situation. In addition, learning from the current acquisition may not be easy because of the need for adequate similarity in the knowledge base to absorb the new knowledge. Alternatively, if the current acquisition is highly similar, prior knowledge may be useful, but the firm may not learn much new knowledge for use in future acquisitions. In contrast, Finkelstein and Haleblan (2002) pointed out that knowledge from prior acquisitions is often misapplied to a subsequent target (i.e., negative transfer effects). They found that second acquisitions often under perform first acquisitions. Given that cross-border M&As involve more uncertainty and complexity than do domestic M&As, more research is necessary to help us understand how knowledge can be learned and applied in the context of international M&As.

Finally, another important area requiring further investigation is the consequences of cross-border M&A failures. Scholars and authors in the popular business press stress that many cross-border M&As failures lead to either closure or divestiture (Child et al., 2001; Kaplan and Weisbach, 1992; Li and Guisinger, 1991; Porter, 1987). The extant literature explains failures largely as the result of paying excessive premiums or unavoidable problems associated with post-acquisition integration (Child et al., 2001; Hitt et al., 2001a,b). While Hayward (2002) suggests that firms can learn from small mistakes—defined by the size of premium paid—virtually no research has been done in the area of learning from relatively large failures that produced divestitures or liquidation of cross-border M&As. The reason of this deficit in the research might be a consequence of these large failures. In fact, it would be reasonable to argue that large failures are likely to lead to the turnover of the management responsible of the investment (Shimizu and Hitt, 2004). Managers who made the poor investment are unlikely to acknowledge the “ghosts” of their past. Second, as a consequence of the former managers' turnover, new managers miss the opportunity to learn from their valuable experience. Thus, mistakes are rarely

analyzed, thereby preventing learning. As a result, inappropriate attributions could be made regarding the causes of failures, and the firm might forgo future cross-border M&A opportunities (Shimizu, 1999). Given their inherent risk and high failure rate, research on the outcomes of cross-border M&As has the potential to significantly contribute to the literature, as well as to management practice.

5. Cross-border M&As as a value-creating strategy

Research on post-cross-border M&As has three main streams. The first research stream, as explained in the discussions above, explores broad topics of post-cross-border M&As, including integration between acquirer and acquired firms. The second one, which is common to the finance literature, examines the issue of wealth creation to shareholders by cross-border M&As. Researchers in this stream usually examine stock market reactions to M&A announcements. The third stream examines post-M&A performance using relatively longer term measures than stock price responses in comparison with other modes of entry.

The debate we analyze in this section is a typical and controversial issue regarding M&As in general. The primary question of this previous work is do acquiring firms create value for their shareholders, or do they create value almost exclusively for the target firm's owners?

Some of the key research findings are summarized in Table 3.

5.1. Theoretical perspectives on cross-border M&As as a value creating strategy

5.1.1. Wealth creation by cross-border M&As

The theoretical foundation for positive returns from cross-border M&As is based on the assumption that firms enter foreign markets to exploit the firms' specific resources to take advantage of imperfections in the markets (e.g., Buckley and Casson, 1976; Morck and Yeung, 1992; Wilson, 1980). Research states that cross-border M&As provide integrating benefits of internalization, synergy, and risk diversification and thereby create wealth for both acquirer and target-firm shareholders (Kang, 1993; Markides and Ittner, 1994; Morck and Yeung, 1991, 1992). Market reactions to cross-border M&As are sharply different from those regarding domestic M&As, which often are reported to reduce the acquirer's shareholder value while only improving the target's shareholder value (Kaplan and Weisbach, 1992). In fact, wealth creation effects were observed in several cases of U.S. acquirers purchasing non-U.S. firms (Markides and Ittner, 1994; Morck and Yeung, 1992) and vice versa (Kang, 1993).

The first group of studies on which we focus employed a TCE framework or, at the most, an integrative theoretical framework combining TCE with other theories. In all samples, U.S. firms are examined as the acquirers of foreign targets, or as the targets of foreign buyers. For example, Morck and Yeung (1992) examined 332 foreign acquisitions by U.S. firms between 1978 and 1988. Using a transaction cost perspective, they found that the acquirers' R&D intensity, advertising intensity, and management quality were positively associated with the acquirer's abnormal returns. These firms had internal

information-based resources that allowed them to more effectively internalize the assets of the acquired firm. Using a similar sample of 276 cross-border M&As by U.S. firms between 1975 and 1988 and adopting the same theoretical viewpoint, [Markides and Ittner \(1994\)](#) examined a wide variety of factors, including taxation, currency fluctuation, target home country characteristics, acquirer industry characteristics, and acquirer and acquisition features. They found several factors that positively influenced abnormal returns. Specifically, these factors were the acquirer's home currency strength, industry advertising intensity, industry concentration, prior international experience, business relatedness, and the acquirer relative size compared with the target firm. On the other hand, effects of most host country characteristics were not statistically significant. The reasons for these outcomes track closely to the rationales for the results of the [Morck and Yeung \(1992\)](#) study.

Examining wealth creation in situations where foreign firms were the acquirers and U.S. firms were the target, [Harris and Ravenscraft \(1991\)](#) found that U.S. targets of foreign buyers had significantly larger wealth gains than those purchased by U.S. firms. Finally, [Kang \(1993\)](#) examined 119 Japanese firms that bid on 102 U.S. firms between 1975 and 1988. He also found that Japanese acquisitions of U.S. firms created wealth for both acquirer and target firm shareholders. He mainly examined financial characteristics of acquiring firms using a theoretical frame of TCE and agency theory. He found that returns to Japanese bidders were positively related to the bidders' total debt and their borrowings from financial institutions (mainly large Japanese banks). High debt supposedly reduces potential agency costs ([Jensen, 1986](#)). He also found a positive relationship between Japanese acquirer gains and the appreciation of the yen compared with the dollar.

Interestingly, there is some conflicting research on this issue. For example, following an integrative theoretical approach, including TCE, resource-based view, and cultural differences, [Datta and Puia \(1995\)](#) reported opposite results from those reported above. Using a slightly different sampling time frame (1978–1990), they concluded that cross-border M&As (on average) do not create value for the acquiring firm shareholders, aligning the results with those of domestic M&As. More specifically, they found that, while the influence of acquisition relatedness on value creation is unclear, cultural fit does have a positive effect. Cross-border M&As characterized by high cultural distance were accompanied by lower wealth effects for acquiring firm shareholders. It is worthy of note that [Datta and Puia \(1995\)](#) included relatively newer acquisitions as compared with other studies that reported positive wealth effects for both acquirers and targets. Given that rapid globalization has been reducing market differences across countries, one possible interpretation could be that their results appear to be because globalization has reduced the differences between cross-border and domestic M&As. While this idea is far from conclusive, future studies with updated samples should provide more insights.

Several authors have also controlled for other factors likely affecting wealth creation. In particular, some authors found the tax system of the country in which the deal is consummated (together with other factors such as the exchange rate) to be highly influential. For example, [Manzon et al. \(1994\)](#) in a macroeconomic analysis of the different tax systems among different countries found that U.S. acquirers can benefit from wealth gains when their targets are located in high-tax countries, while they earn lower abnormal returns when they invest in low-tax countries. Trying to explain the different

Table 3
Summary of empirical research on cross-border M&A as a value creating strategy

Theoretical perspective	Study	Sample	Dependent variable	Independent variable	Control variable	Key findings
Organizational learning	Barkema et al. (1996)	Data were collected from foreign ventures of 13 large nonfinancial Dutch firms between 1966–1988.	Longevity of the venture	Firm level: level of foreign experience Country level: cultural blocks of cultural distance	Firm level: assets of the firm	The longevity of foreign ventures is negatively related to the cultural distance between the home and the host country. The longevity of foreign ventures is more strongly and negatively related to cultural distance in the case of double-layered acculturation (JVs and acquisitions), than in the case of single layered acculturations (WOSs and start-ups). The longevity of foreign ventures is more strongly and positively related to prior foreign expansion experiences in the case of double layered acculturation (JVs and acquisitions) than in the case of single layered acculturation (WOSs and start-ups).
TCE	Harris and Ravenscraft (1991)	1273 U.S. firms acquired between 1970–1987 (1114 domestic and 159 cross-border)	Target wealth gain, event study methodology	Firm level: domestic vs. cross-border (D), cash or not (D), multibidder (D), buyer U.S. operation experience (D), relatedness of the business (D), buyer currency strength Industry level: R&D intensity of the target industry, total selling expense intensity of the target industry Macro level's tax reform (D), the proportionate deviation of the home currency in the year of the deal	NONE	Cross-border takeovers are more frequent in research and development intensive industries than are domestic acquisitions. In three-fourths of cross-border transactions the buyer and seller are in related industries. Targets of foreign buyers have significantly higher wealth gains than do targets of U.S. firms. Exchange rate movements are influential in FDI (wealth effects), while tax variables are not clear.

Servaes (1991)	704 takeovers and tender offers between 1972–1987	CAR from the takeover announcement till resolution or delisting, whichever came first	Firm level: target firm return, bidder firm return	Firm level: relative size, cash payment, multiple bidders, deal after 1980, hostility	Target, bidder, and total returns are larger when targets have low q ratios and bidders have high q ratios. The relationship is strengthened after controlling for the characteristics of the offer and the contest.
Li and Guisinger (1991)	85 foreign-controlled business failures in U.S. between 1978–1987	Business failures (foreign-controlled vs. domestic)	Entry mode (greenfield 26%, JV 9%, acquisitions 65%), ownership types (MNCs, individuals), cultural distance	Subsidiary size	The failure rate of foreign-controlled firms in the U.S. is significantly lower than the failure rate of domestically owned firms. Acquisitions and JVs are more likely to fail than greenfield. Cultural distance is positively associated with failure.
Nitsch et al. (1996)	124 and 173 Japanese subsidiaries in Europe between 1992–1994	Subsidiary performance (ToyoKeizai)	Entry mode (greenfield, JV, acquisitions)	Location and industry factors were partially controlled	The greenfield mode is the best, JV is not far behind in terms of the subsidiary performance by entry mode. Acquisitions have at best mixed performance.
Morck and Yeung (1992)	332 foreign acquisitions by U.S. firms between 1978–1988.	AR of acquirers	Firm level: R&D/Assets, advertising/assets, management quality (officer equity ownership), entrenchment (insider >20%)	Share purchase (D), firm size, industry (D)	Overall abnormal return of acquirers is positive and significant. Firms with information-based assets experience a significant positive stock reaction.

(continued on next page)

Table 3 (continued)

Theoretical perspective	Study	Sample	Dependent variable	Independent variable	Control variable	Key findings
Contingency theory	Shaver (1998)	213 U.S. entries by foreign manufacturing firms in 1987	Entry mode (acquisition vs. greenfield), investment survival until 1992	Firm level: number of U.S. subsidiaries yet controlled (experience), related entry, parent R&D intensity Industry level: pre-entry industry growth, post-entry industry growth, industry concentration, U.S. firms international operation, firm revenue, correction for self-selection	Parent size	The choice of mode of entry influences the survival of the foreign subsidiary. Since firms choose entry mode based on their resource availability, researchers need to control the self-selection in examining the influence of mode of entry on performance outcomes.
Macroeconomics	Manzon et al. (1994)	301 acquisitions made by 202 U.S. firms between 1975–1983	CAR	Macro level: tax value	Firm level: pre-existence of the firm in the country of acquisition, level of development in the host country, relatedness of the acquisition	Firms with no excess foreign tax credits that acquire firms in low-tax countries will earn lower abnormal returns than firms with no excess foreign tax credits that acquire firms in high-tax countries.

<p>Multiple: network theory, organizational learning</p>	<p>Beckman and Haunschild (2002)</p>	<p>Acquisitions made by 300 large publicly held service and manufacturing firms in the U.S. between 1986–1997</p>	<p>Premium paid by the focal firm for the acquisition</p>	<p>Firm level: premium experience of network partners, acquisition size of network partners, network partner size Network level: network diversity, network partner industry, network multiplexity</p>	<p>Firm level financial controls: target and acquirer size, target and acquirer profitability Deal controls: number of other bidders, deal completed or not Agency controls: proportion of inside ownership of firm, proportion of insiders on the board, proportion of institutional ownership of stock, concentration of ownership Other controls: power or status of acquiring firm</p>	<p>The greater the diversity: of network partners' premiums, of the size of network partners' acquisitions, of a focal firm's network, of network partners' sizes, the lower the premium a focal firm will pay on its current acquisition. The more multiplex the relationship between a firm and its network partners, the stronger the relationship between partner diversity and the premium a focal firm will pay on its current acquisition.</p>
<p>Multiple: agency theory, TCE</p>	<p>Kang (1993)</p>	<p>119 Japanese bidders and 102 U.S. targets between 1975–1988</p>	<p>CAR: Japanese bidders, U.S. target</p>	<p>Firm level: loans to firm market value, equity ownership by banks, main bank (D), other debts, other equity ownership, investment trust ownership, leverage, block-ownership, manager ownership, bidder's previous ownership Macro level: exchange rate, tax</p>	<p>Financial slack, TSE P-E, bidder' previous ownership (D), relative market value, merger or tender (D), manufacturing (D), multiple bidder (D)</p>	<p>Japanese acquisitions of U.S. firms create statistically significant wealth gains for both bidders and targets (348). With bidders' total debt, their ties to financial institutions through borrowings, and the depreciation of the dollar increases the value of bidder and target (369).</p>

(continued on next page)

Table 3 (continued)

Theoretical perspective	Study	Sample	Dependent variable	Independent variable	Control variable	Key findings
Multiple: RBV, managerialism	Seth et al. (2002)	100 cross-border acquisitions of U.S. firms between 1981–1990	Total shareholders gain, bidder gain	Synergistic: asset sharing (relative sales size), reverse internalization (target's R&D, Ad, marketing intensity), market seeking (relative market growth of the target country), financial diversification Managerialist: empire building (relative sales size), risk reduction (financial diversification)	Market-oriented, group-oriented, bank-oriented, multibidder	Value creation by cross-border M&A can be different by motives of the M&A (synergistic, managerialistic, hubristic).
Multiple: TCE, industrial organization economics	Markides and Ittner (1994)	276 cross-border acquisitions by U.S. firms between 1975–1988	Acquirer AR	Acquirer industry: R&D intensity, advertising intensity, four-firm concentration ratio Acquisition: relatedness (Dummy variable), equity stake (D), cash (D), size (target sales/acquirer) Macroeconomic: tax (D), relative US\$ strength (D), cash (D) Acquiring firm: prior international experience (D), income, profitability, log size (sales) Target home country: english (D), relative GDP growth, stock market correlation, relative inflation, relative hourly wages, cultural distance, country dummies		On average, international acquisitions create value for the acquiring firms. The value creation is a function of the acquisition characteristics (related vs. unrelated), bidding firm industry characteristics (e.g., concentration level, advertising intensity), acquiring firm characteristics (e.g., international experience, current profitability), and the macroeconomic environments (e.g., tax regulation, currency strength).

Multiple: RBV, national cultural differences	Chatterjee et al. (1992)	Questionnaire data collected from 30 firms on mergers made between 1985–1987	Financial performance: rate of return on common shares	Firm level: cultural differences, tolerance of multiculturalism	Firm level: relative organizational size	The change in shareholder value of buying firms involved in related mergers will be inversely related to the degree of perceived cultural differences between the combining top management teams. The change in shareholder value of acquiring firms involved in related mergers will be directly related to the degree to which the buyer's top management team tolerates multiculturalism.
Multiple: TCE, RBV, national cultural differences	Datta and Puia (1995)	112 large cross-border acquisitions by U.S. firms between 1978–1990	Cumulative abnormal return (CAR) for U.S. acquirers	Firm level: relatedness Country level: cultural fit (distance)	NONE	Cross-border acquisitions, on average, do not create value for acquiring firm shareholders. While the influence of acquisition relatedness on value creation is unclear, acquisitions characterized by high cultural distance were accompanied by lower wealth effects for acquiring firm shareholders.

(D) Indicates dummy variable.

sources of wealth gains between cross-border and domestic M&As of U.S. firms, [Cebenoyan et al. \(1992\)](#) also found evidence of the influence of tax regimes (along with the exchange rates and technological level of the industry). However, they concluded that the best predictor of such differences is the intensity of foreign acquisition activity within the same industry of the target firm. On the contrary, in a study of wealth gains accrued to foreign acquirers, [Cakici et al. \(1996\)](#) found that tax effects (together with exchange rates effects and R&D intensity) were not relevant, while they found that wealth effects were explained by country factors.

Recently, using an integrated theoretical approach based on resource-based view and managerialism, [Seth et al. \(2002\)](#) analyzed factors that create or destroy value in cross-border M&As. They suggested that a possible explanation for the conflicting results in the previous research might be a failure to account for the different motives of each acquisition. They found that the value creating deals originated from synergy-oriented M&As, in which the two firms intended to combine their complementary assets. Specifically, the multiple sources of value creation are asset sharing, reverse internalization of valuable intangible assets, and financial diversification. On the other hand, they found that the value-destroying deals originated from managerialism, or hubris-based M&As (with a stronger evidence on managerialism), in which managers pursued their personal interest or made mistakes in the target evaluation process.

Finally, confirming the importance of management qualities in employing value-creating strategies, [Servaes \(1991\)](#), adopting a TCE framework, concluded that, if the Tobin q ratio is the interpretation of managers' performance, the best value-creating M&As occur when high- q firms acquire low- q firms. These results imply that "better performing firms also make better acquisitions and that more value can be created from taking over poorly performing companies" ([Servaes, 1991, p. 409](#)).

5.1.2. Post-M&A performance

Several researchers have examined post-acquisition performance using measures other than abnormal stock returns. One such research stream compared the performance of cross-border M&As with the performance of other entry mode choices (joint ventures and greenfield investments).

As noted earlier, prior research suggested that returns to cross-border M&As are generally negative, confirming that FDI is inherently risky ([Lee and Caves, 1998](#)). Following this line of reasoning, several scholars attempted to demonstrate the inherent risk of cross-border M&As by adopting a TCE perspective. For example, [Li and Guisinger \(1991\)](#) found that M&As and joint ventures were more likely to fail when compared with greenfield ventures because of the often significant transaction costs involved with JVs and M&As (especially in the negotiations and post-merger integration). Their results were confirmed by a subsequent study published by [Nitsch et al. \(1996\)](#). These authors examined the performance of 300 Japanese subsidiaries in Europe and found that the ones initiated by acquisitions performed much worse than those that were created by greenfield investments or joint ventures. More generally, [Ramírez-Alesón and Espitia-Escuer \(2001\)](#) found a positive relationship between economic performance and international diversification. Thus, entering international markets produces potential benefits, but the costs of entering with M&As may overcome the benefits.

Following a different line of reasoning based on different theoretical approaches, such as contingency theory or organizational learning, another group of scholars reached different conclusions. For example, [Shaver \(1998\)](#) recently questioned the methodologies employed in the early research on entry modes and performance. He adopted a contingency view approach and suggested that the choice of the best entry mode is not a random but a strategic decision based on the firm resources and industry context. He stated that “empirical models that do not account for this and regress performance measures on strategy choice variables are potentially misspecified and their conclusions are incorrect” ([Shaver, 1998, p. 571](#)). Incorporating often unobserved firm characteristics, he showed that the survival ratio of entries by M&As was not significantly different from the one resulting by greenfield investments. Another study supporting international market entry by cross-border M&As, compared with greenfield entries, was conducted by [Vermeulen and Barkema \(2001\)](#). They adopted an organizational learning perspective, arguing that greenfield entries tend to be more simple and rigid, which leads to higher failure rates than M&As do. In contrast, M&As provide new knowledge and perspectives and thus help firms avoid path dependence and build new capabilities.

Another research stream examined the relationship between performance and the degree of learning achieved from previous experience. For example, again using an organizational learning perspective, [Barkema et al. \(1996\)](#) analyzed whether firms were able to reduce the cultural barriers and enhance the performance of different entry mode and governance structure alternatives by learning from their prior experience. Their results show that the longevity of foreign ventures is negatively related to cultural distance, especially in cases of double-layered acculturation, but that the longevity of cross-border M&As and their performance are positively influenced by previous experience in the same or similar countries. Previous experience provides additional benefits, such as being part of a network. Employing a network learning perspective, [Beckman and Haunschild \(2002, p. 92\)](#) argued that “firms use the experience of their network partners and learn by sampling that experience”. Partners’ experiences can help firms in learning new skills ([Hamel, 1991](#)), discovering unknown financing options, gathering important information about the specific industry in which they are investing, and learning about the general institutional context at the local level. It also provides information that can be useful in evaluating potential target firms for acquisition.

5.2. Research issues on cross-border M&As as a value creating strategy

An important research issue involves the explanatory variables for wealth creation. Partly because most research on wealth creation is based on economics and finance, the most common theoretical perspectives used in this work are agency theory and TCE. As a consequence, factors related to strategy and synergy are not typically examined (c.f., [Madhok, 1997](#)). Additionally, most of the firm-level factors are coarse grained and do not reflect the unique resources and capabilities of the acquirers. In this sense, there is a similarity with trends in the foreign entry mode research. Even in this case, more fine-grained measures of firm-specific factors are needed to provide a better understanding of the wealth creation mechanisms.

Integrating the various research findings, we can conclude that moving into international markets has a high potential for the investing firm, but that the entry mode is a critical decision entailing important effects on the success of the investment and, therefore, on firm performance. However, several questions still remain unanswered to understand the best entry modes into international markets. Therefore, research is needed that employs different theoretical perspectives to better understand the predictors of wealth creation from international market entry. Many studies have been driven by a TCE perspective. But, it seems that research using an organizational learning perspective and/or the RBV of the firm has shown potential benefits of cross-border M&As. Perhaps, an integrated theoretical framework that incorporates a transaction cost perspective along with organizational learning or the resource-based view is likely to provide a more realistic assessment of the wealth creation potential from cross-border M&As.

6. Conclusions and future research

Cross-border M&As have become an increasingly important strategy used by a large number of firms in multiple regions across the globe. While cross-border M&As have a number of characteristics in common with domestic M&As, they also have unique and important differences. However, given their increasing popularity and importance, there has been little research on cross-border M&As. Our intent has been to examine the existing research on cross-border M&As to identify the primary theoretical perspectives used and the major findings of the extant research. The outcomes of this examination helped us identify future research topics necessary to enhance our knowledge of this important strategic phenomenon. We highlight five important research areas.

6.1. *Theoretical base for and measurement of the determinants of cross-border M&As*

Many researchers have compared cross-border M&As with greenfield investments, and/or joint ventures with the intent of identifying factors that determine the entry mode choice. However, the empirical results regarding the determinants of M&As as a transnational entry mode are mixed. While theory and research on equity-based versus non-equity-based approaches are relatively robust, the theoretical foundations of the determinants of cross-border M&As remain weak. Our synthesis of the prior work suggests that the predominant theoretical perspectives employed in research on entry mode choice have been TCE and OLI theories. Effects of firms' unique and heterogeneous resources and capabilities have not received adequate attention in this research stream (Madhok, 1997). The availability of target firms with complementary resources in host countries requires examination, for example. Additionally, the effects of international experience have been interpreted in opposite ways, based on the adopted theoretical perspective. Moreover, most measures of firm-level resources are crude. Accordingly, we argue that more theoretical development and increased empirical examination of these issues are necessary in future research on cross-border M&As.

6.2. Unpacking due diligence and other important processes involved in cross-border M&As and clarifying the role of professional advisors

Despite the importance and complexity involved in the due diligence process in cross-border M&As, research on this phenomenon is limited. Future research on cross-border M&As should examine in greater detail the process of identifying potential targets for acquisition—the target selection process—and the process of negotiating the deal. For example, research should be conducted to help us better understand how to evaluate non-financial and intangible resources, especially in foreign firms targeted for acquisition. In particular, the methods applied for attributing an accurate value to the human capital inside an organization are still unclear. More work is needed to determine how to value tacit knowledge, skills, and competencies held by the target firm human capital, especially if it is based in a foreign country. Of course, the risk of these individuals' turnover after the acquisition is consummated can be a critical issue of concern as well. A better understanding of the proper measures to value human capital may help firms to know what individuals should be kept after the acquisition. Of course, this research also requires a RBV for the theoretical base.

Research is needed to increase our understanding of valuing target assets and avoiding the payment of excess premiums for acquisitions. In addition, research should be conducted on how to identify and evaluate potential complementary resources in target firms. Additionally, we should better understand the role of investment bankers and consultants in cross-border M&As. The importance of professional advisors in cross-border M&As is obvious, yet, the actual value added by the services of such advisors is debatable (e.g., [Inkpen et al., 2000](#); [Porter, 1987](#)). In this case and in the overall due diligence process, we suggest that the potential value of an organizational learning approach may help us design a more effective process. Unpacking the due diligence processes, including the roles of the professional advisors, is a promising future area for cross-border M&A researchers.

6.3. Learning from successful and failed M&As

Firms that make multiple cross-border M&As should learn from their prior experiences ([Very and Schweiger, 2001](#)). As the importance of and opportunities from cross-border M&As are likely to increase further in the global economy, learning from acquisition experience could be a critical source of competitive advantage. However, the extant research on learning from acquisition experiences is rather limited and contradictory ([Finkelstein and Halebian, 2002](#); [Hayward, 2002](#)). While anecdotes such as those of Cisco's or General Electric's successful acquisition strategies exist (e.g., [Ashkenas et al., 1998](#)), a more systematic approach is needed to understand the learning mechanisms operative in complex cross-border M&As. Moreover, given the high failure risk of M&As, firms must be prepared for unforeseen events and respond to them effectively. Virtually no research has been done in the area of learning from relatively large failures, such as divestitures or liquidation of cross-border M&As ([Shimizu, 1999](#); [Shimizu and Hitt, 2004](#)). Although mistakes and failures are not a pleasant topic for practitioners, opening this black box and providing managerial insights would significantly inform scholarly research and practitioners.

6.4. Understanding the governance problems related to M&As

Porter (1990) noted the importance of ownership structure and corporate governance in the formulation and outcomes of corporate strategy, with a primary focus on international strategy. Research shows that countries differ in their institutional contexts and, thus, in the types of corporate governance mechanisms utilized (Inkpen et al. 2000; Gedajlovic and Shapiro, 1998; Short, 1994). Specifically, governance problems related to M&As require more research efforts. For example, do the integration challenges differ in M&As when an acquiring firm holds the majority stake (51% or more) of a target firm, compared with when it holds a minority stake (e.g., 30%)? Considering the potential imposition of regulations (Dunning 1993; Erramilli et al., 1997) that create challenges for the acquiring firm to operate in certain foreign countries, more research on the different outcomes of M&As into countries with differing institutional environments would be highly valuable. Importantly, is agency theory the most effective theoretical frame for research on international governance, especially within different institutional environments? Institutional theory will be important to inculcate in future research in this area. In addition, scholars can also examine the implications of organizational learning and resources (RBV) in future research, as suggested by the recent work of Hitt et al. (2004).

6.5. Reframing domestic versus cross-border M&As

Finally, a more fundamental question is whether we can generalize across all cross-border M&As and search for conclusions such as “cross-border M&As create or destroy value”. While earlier research often assumed that cross-border M&As are carried out by firms from developed countries entering less developed countries (Wilson, 1980), the barriers and economic differences might not be as pronounced as assumed. Moreover, as Child et al. (2001) pointed out, many domestic M&As also manage international operations and thus experience some of the same challenges as cross-border M&As do, in particular, at the integration stage. For example, the merger between H-P and Compaq, which is categorized as a domestic merger, involved large amount of international operations that had to be integrated as well. Future research should reframe our perspective on the meanings and implications of “cross-border” activities.

In conclusion, cross-border M&As are a crucial strategic initiative involving many challenges in the global economy. Although past research has suggested important outcomes, it has not kept pace with the increasing globalization and popularity of these international strategies. There are many areas requiring more theoretical and empirical development. We believe that further research on cross-border M&As can make significant contributions both to scholars and practitioners.

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