Effects of Industry- and Region-Specific Acquisition Experience on Value Creation in Cross-Border Acquisitions: The Moderating Role of Cultural Similarity

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ABSTRACT Based on a sample of 222 cross-border acquisitions by US firms in the service sector, our study examines the effects of acquiring firms’ prior cross-border acquisition experience in the same industry and geographic region as the acquired firm on shareholder value creation. Using the BHAR (buy-and-hold abnormal returns) methodology, we find that higher levels of industry-specific and region-specific acquisition experience translate into greater shareholder value creation for acquiring firms in subsequent acquisitions. In addition, our results indicate that the effects of industry-specific acquisition experience on acquisition performance are contingent on the level of cultural similarity between the acquiring and acquired firm countries, with the benefits of prior experience being greater in acquisitions undertaken in culturally similar countries. We also find that the moderating effects of cultural similarity on the relationship between industry-specific acquisition experience and value creation are contingent on the level of prior region-specific acquisition experience possessed by the acquiring firm.

Keywords: acquisition experience, cross-border acquisitions, cultural similarity, learning transfer, value creation

INTRODUCTION

In the organizational learning literature (e.g., Levitt and March, 1988; Fiol and Lyles, 1985), firms are viewed as routine-based systems wherein prior experiences are coded into routines that form the basis of their future behaviour. Barkema and Schijven (2008), in their review of the extant literature on organizational learning in mergers and acquisitions (M&As), discuss how acquiring firms learn from acquisition experience which they then use in subsequent transactions. Their review reveals that prior studies have generally been based on the traditional learning perspective, with higher
levels of overall acquisition experience being associated with superior performance. Such performance occurs when the value of the combined company ensuing from the acquisition exceeds the stand-alone value of the acquiring and the acquired firm (after accounting for the premiums paid), resulting in shareholder value creation (Rappaport, 1998). This value creation is reflected in the form of gains in the stock price of the acquiring firm and measured as ‘wealth effects’ or ‘abnormal gains’ that accrue to acquiring firm shareholders (Datta et al., 1992).

While several studies have been conducted on the relationships between prior acquisition experience and acquisition performance, findings have been equivocal. For example, while Kusewitt (1985) observed that the effects of prior acquisition experience on the performance of subsequent transactions were negative, Fowler and Schmidt (1989) found the relationship to be positive. On the other hand, no significant relationships between such experience and acquisition performance were observed in studies by Kroll et al. (1997) and Wright et al. (2002). In essence, prior research findings seem to suggest that greater acquisition experience does not necessarily translate into increased shareholder value. That motivated us to examine whether the type of prior acquisition experience (rather than overall acquisition experience) matters in cross-border acquisitions. For acquisition experience to have beneficial consequences, learning from prior experience has to be effectively transferred to and utilized in subsequent transactions. The transfer theory of learning (e.g., Ellis et al., 2011) posits that learning transfer can result in both positive and negative outcomes, with positive outcomes being more likely when the focal event stands to benefit from learning that occurred in similar prior experiences (Gick and Holyoak, 1987). On the other hand, when learning from prior experiences is misapplied to the focal event that is incorrectly perceived to be similar, the transfer effects are often negative (Salomon and Perkins, 1989).

In this study, we seek to build on the organizational learning and transfer theories to explore whether experiences related to prior acquisitions in the same industry (industry-specific acquisition experience) and the same geographic region (region-specific acquisition experience) result in enhanced shareholder value creation in cross-border acquisitions. In addition, we examine whether the expected relationships are contingent on the extent of cultural similarity between the acquiring firm home and host country, based on the notion advanced in the learning transfer literature that the context within which learning is transferred is central to a successful transfer. We examine these relationships in the context of cross-border acquisitions undertaken by US firms in the service sector between 1991 and 2006. Such acquisitions have become increasingly important in recent years (Merchant and Gaur, 2008) and have contributed significantly to the dramatic increase in the value of cross-border acquisition activity over the past couple of decades (from less than $100 billion in 1990 to over $1 trillion in 2007).

While cross-border acquisitions obviously share some commonalities with domestic acquisitions, there are some important differences. First, cross-border acquisitions tend to be more complex (Collins et al., 2009; Vermeulen and Barkema, 2001), with processes and associated outcomes being significantly impacted by the differences (especially, cultural) that exist between the countries of the firms involved. Such
differences make it difficult for acquiring firms to comprehend ‘the complexities of the acquisition making process’ in such acquisitions (Nadolska and Barkema, 2007). Second, cross-border acquisitions are typically characterized by higher levels of uncertainty and information asymmetry (Kogut and Singh, 1988; Shimizu et al., 2004) that stem from the liabilities of foreignness (Zaheer, 1995) and outsidership (Johanson and Vahlne, 2009) associated with operating in a foreign market. Indeed, one of the most important challenges that acquiring firms face in foreign countries comes from being an outsider in local market networks and relative lack of knowledge of business conditions therein. As such, we can expect prior acquisition experience to be a more important factor in the context of cross-border acquisitions vis-à-vis those undertaken in the domestic context (Chakrabarti et al., 2009).

In our study, we focus on two types of cross-border acquisition experience, namely, industry-specific and region-specific prior acquisition experience. They represent two important dimensions of target-to-target similarity in acquisitions. While the former relates to similarities in the context of industries (prior cross-border acquisition experiences in the same industry as the focal acquisition), the latter represents similarities in terms of geographic regions (prior cross-border acquisitions in the same geographic region as the focal acquisition). We posit that while prior industry-specific acquisition experience can create shareholder value in the focal acquisition via the application of routines developed in the context of prior acquisitions in the same industry, prior region-specific acquisition experience enables acquiring firms to develop competencies that can be leveraged in overcoming the liabilities of foreignness and outsidership in subsequent acquisitions in the region.

We expect our study to make several important contributions to the growing literature on cross-border acquisitions. Unlike prior research, which has been primarily based on transaction cost economics (TCE) and internationalization theories (Shimizu et al., 2004), our study adopts an organizational learning perspective towards exploring whether cross-border acquisition experience contributes to enhanced shareholder value. From a theoretical perspective, our study extends organizational learning and learning transfer theory arguments to the examination of the role of prior industry-specific and region-specific acquisition experience in the creation of shareholder value in cross-border acquisitions. Our study also seeks to contribute to our understanding of the importance of the context within which learning is transferred – particularly important given the significant contextual (especially cultural) differences that accompany such transactions. In the process, our findings should enable us to better understand the conditions under which learning from prior acquisition experience can be applied to future transactions.

Our paper is structured as follows. In the following section, we provide theoretical arguments on why learning from prior industry-specific and region-specific cross-border acquisition experience ought to create value in subsequent transactions undertaken by the firm. We then discuss the moderating role of cultural similarity on the relationships between prior acquisition experience and acquisition performance. This section also provides the hypotheses examined in our study. Next, we provide a description of the sample, the measures, and the data analytic techniques used in the study. Following that, we present the results of our analyses. Finally, we discuss
the implications of our findings, highlighting the contributions of our study from the standpoint of theory and practice.

THEORETICAL OVERVIEW AND RESEARCH HYPOTHESES

Organizational learning theory (Argote and Miron-Spektor, 2011; Fiol and Lyles, 1985; Huber, 1991; Levitt and March, 1988) suggests that firm experiences result in the creation of knowledge that significantly impacts firm strategies and related outcomes. The organizational learning literature views firms as routine-based systems wherein prior experiences are coded into routines that guide future behaviour. In the context of mergers and acquisitions, prior experience results in the development of routines that guide firms in the various facets of the acquisition process (e.g., target evaluation and due diligence, negotiations, and post-acquisition assimilation) in subsequent transactions (Finkelstein and Halebian, 2002; Vermeulen and Barkema, 2001). Acquisition experience has also been closely linked to the ability of the acquiring firm to absorb new information related to potential targets, something that can be valuable in the effective evaluation of such targets. However, when acquiring firms lack prior acquisition experience or possess experience that is not closely related to the intended acquisition (e.g., they have acquisition experience in different industries or in different geographic regions), their ability to absorb and assess acquisition related information is generally limited. We believe that while accumulated experience is important, it translates into superior acquisition performance only when such experience can be meaningfully transferred ‘from one event to a subsequent one’ (Barkema and Schijven, 2008, p. 596). This view represents a departure from the traditional learning perspective which posits that acquisition experience is relatively homogeneous with performance outcomes being directly related to the level of acquisition experience.

In addition, learning transfer does not necessarily result in superior outcomes. Indeed, learning transfer theory (Ellis et al., 2011) posits that learning transfers can result in either positive or negative outcomes, with positive outcomes more likely when prior experiences are similar, allowing for easier transfer of learning to the focal event (Gick and Holyoak, 1987; Perkins and Salomon, 1992). These transfers are often referred to as ‘near transfers’ (Perkins and Salomon, 1992) which enable the firm to address new issues more easily given their close cognitive proximity to prior experience. In the context of cross-border acquisitions, that is likely to happen when there are similarities between the elements of the focal acquisition’s activities and that of prior acquisitions (e.g., the focal acquisition is in the same industry or region as previous acquisitions undertaken by the firm). In contrast, when prior experience is applied to a focal event that is incorrectly perceived to be similar, the outcome can be negative (Salomon and Perkins, 1989). This usually occurs in ‘far transfers’ (Perkins and Salomon, 1992) where the likelihood of existing knowledge being leveraged to the focal event is much lower. Indeed, if learning transfer is attempted in such contexts (based on the assumption that prior experiential learning is universally applicable), there is the risk of it being misapplied to the new situation. In cross-border acquisitions, prior acquisition experience that is not related to the focal acquisition (because it pertains to a different industry or a different geographic region) might
contribute to poor decisions based on incorrect assumptions on the part of acquiring firm managers (Salomon and Perkins, 1989). This misapplication of existing knowledge is likely to result in shareholder value destruction rather than value creation from the standpoint of the acquiring firm.

Our study is based on the premise that learning from prior acquisitions is likely to play a particularly important role in cross-border acquisitions undertaken in the service sector. Service industries are generally more people-intensive, with their internationalization initiatives often linked to their knowledge-based competencies. Such competencies, which enable service industry firms to address customer needs efficiently in foreign markets (Erramilli et al., 2002; Ochel, 2002), are particularly critical in service sector cross-border acquisitions. Since knowledge in service industries is often tacit in nature, contextual similarity (in terms of industry and/or geographic region) ought to be an important factor in the successful transfer of learning to subsequent transactions. On the other hand, transfer effects are likely to be minimal (or even negative) when prior experiences involve acquisitions in dissimilar industries or geographic regions.

**Industry-Specific Acquisition Experience**

Organizational learning theory posits that past experiences of a firm result in the development of organizational routines that help guide future firm behaviour (Levitt and March, 1988). As Haleblian et al. (2006) point out, prior acquisition experiences provide acquiring firms important feedback which results in the development of routines and aids future transactions. In the context of cross-border acquisitions, learning associated with prior industry-specific acquisition experience results in the development and refinement of routines that facilitate future acquisitions in the same industry. As such, it can be argued that learning associated with prior cross-border acquisition experience improves a firm’s ability to execute value creating cross-border acquisitions (Barkema and Schijven, 2008). Since cross-border acquisitions are typically characterized by considerable complexity and uncertainty (Collins et al., 2009; Gatignon and Anderson, 1988), a common industry context lowers causal ambiguity and enables acquiring firm managers to rely more extensively on learning from prior experience (Kim et al., 2011). In addition, prior industry-specific acquisition experience enhances firm absorptive capacity (Cohen and Levinthal, 2003) which contributes to the acquiring firm being more effective in absorbing pertinent information related to the acquired firm. That, in turn, leads to more successful acquisitions that create value for their shareholders. In contrast, acquisition experience in unrelated industries is characterized by greater transfer challenges. Also, there is a greater likelihood of knowledge based on such experience being misapplied in the context of the focal acquisition, with misapplication contributing to value destruction.

The process orientation of service industry firms (versus a product orientation for manufacturing industry firms) also means that such firms are more likely to benefit from prior acquisition experience in the same industry as the target firm. Fosstenløkken et al., (2003) suggest that service industry firms typically rely on two interrelated processes to create value. First, they seek to develop a knowledge base that is fundamental to the service being delivered. Second, they seek to enhance this

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knowledge base via continuous learning from experience related to the providing and delivery of quality service. In the context of cross-border acquisitions by firms in the service sector, learning from acquisition experience should result in the development of the acquisition capabilities and routines that can be readily applied to future acquisitions in the industry. That includes the complex task of target valuation. A primary factor behind acquisitions failing to realize their value creating potential involves overpayment for target firms by acquiring firms. This phenomenon is likely to be more prevalent in cross-border acquisitions given complexity and information asymmetry issues. As stated by Mukherji et al. (2012, p. 40), ‘Cross-border factors add a level of complexity to the problem of valuing knowledge accurately in acquisitions due to the problems that arise from comprehending issues related to language, culture, and context.’ This is especially true in the service industry where value resides primarily in firms’ stock of human capital and intangible (including, knowledge-based) assets (Reuer et al., 2004). While such assets are notoriously difficult to value accurately, past industry-specific acquisition experience can be particularly beneficial in providing acquiring firms with the knowledge base that helps them more accurately value target firms and reduce the likelihood of transactions being afflicted by the ‘winner’s curse’. In addition, acquisition capabilities and routines based on prior industry-specific acquisition experience should enable acquiring firms to mitigate problems related to organization fit (Datta, 1991) and ensure that acquisition-related synergistic benefits are more fully realized towards creating shareholder value.

The above arguments lead to our first hypothesis:

**Hypothesis 1:** Prior industry-specific cross-border acquisition experience will be positively associated with acquiring firm shareholder value creation in cross-border acquisitions.

**Region-Specific Acquisition Experience**

With the increasing importance of regions (over countries) as the basis of competition (Buckley and Ghauri, 2004), there has been greater focus in recent years on the regional strategies of multinationals. Nachum et al. (2008) highlight the advantages of spatial proximity that enables firms to benefit more easily by tapping into region-specific resources. More recently, Sammartino and Osegovitsch (2013) have argued that firms which expand into unfamiliar regions are often significantly disadvantaged because of the liability of regional foreignness. Additionally, research by Qian et al. (2010, 2013) indicates that firms with an intra-regional strategy outperform those with an inter-regional strategy because they are in a better position to reduce the liability of regional foreignness by capitalizing on their accumulated learning.

In cross-border acquisitions, being able to leverage prior region-specific acquisition experience to subsequent acquisitions in the region can be an important source of value creation. Experiential learning related to a geographic region enables firms to incrementally expand their commitments to the region in accordance with the internationalization model (Johanson and Vahlne, 1990). It can be argued that prior region-specific acquisition experience plays an important role in identifying practices...
that enables the acquiring firm to better evaluate synergistic benefits associated with an acquisition. This results in the acquiring firm obtaining a more accurate picture of the true value of the target firm, thereby reducing the likelihood of overpayment and enhancing the potential for value creation. Prior region-specific acquisition experience provides benefits to the acquiring firm in the form of access to network-based resources (e.g., being able to retain the services of a trusted M&A advisor in the region the firm had used in the past) that would otherwise be unavailable to a firm with no region-specific experience. Such benefits related to region-specific acquisition experience improve the likelihood of the focal acquisition creating shareholder value. Moreover, region-specific acquisition experience facilitates the extension of acquiring firms’ acquisition-related routines to future acquisitions in the region since experiential learning is more easily applied in contexts that are similar to those within which it was developed (Cohen and Levinthal, 1990).

An important challenge that a firm faces when it seeks to enter a foreign market relates to the firm being an outsider in local networks and its lack of knowledge of local business opportunities. This is often referred to as the liability of outsidership (Johanson and Vahlne, 2009). However, it can be argued that firms with region-specific acquisition experience are less likely to suffer from such liability since participation in regional networks in prior acquisitions provides them with better access to local resources and institutional contacts (Kostova and Zaheer, 1999). Studies by Lopez et al. (2009) involving Costa Rican firms, and by Collinson and Rugman (2008) using a sample of Japanese firms on the performance of multinational firms, attest to the value of adopting a regional strategy in overcoming the liability of outsidership. In addition, recent arguments advanced by Vahlne et al. (2012) suggest that region-specific acquisition experience leads to the development of regional networks that enables acquiring firms to better evaluate future acquisition initiatives in the region. On the other hand, not being linked to networks within the region where the focal acquisition is being contemplated places an acquiring firm at a disadvantage in the evaluation of acquisition opportunities in the region. In sum, we can reasonably expect region-specific acquisition experience to be important from the standpoint of firms seeking to overcome the liabilities of regional foreignness and outsidership. Region-specific acquisition experience (by virtue of prior acquisitions in the region) should also provide firms with access to a network of individuals and organizations (e.g., managers, suppliers, bankers, and regulators) that are more familiar with the requirements of doing business in the region.

Region-specific acquisition experience is likely to be particularly salient in the context of service industry firms. Firms in the service sector, given the tight coupling between upstream and downstream activities in the deliverance of services, tend to be region-focused in their internationalization efforts (Rugman and Verbeke, 2008). However, the need for simultaneous production and delivery poses important challenges in the customization of offerings that meet host country needs and ensure service quality. In addition, given that service industries are typically knowledge-based, experiential learning linked to the creation and delivery of services is closely tied to the geographic context. For acquiring firms in the service sector, region-specific acquisition experience also provides valuable knowledge related to the post-acquisition
management of acquired firms in the region. Such experience provides service sector firms with a better understanding of how their assets (and those of acquired firms) can be gainfully leveraged within the region in the post-acquisition phase. In contrast, when their prior acquisition experience involves very different geographic regions, acquiring firms are likely to find it more difficult to meaningfully utilize the experience and knowledge in the context of the focal acquisition. This was the experience of the Dutch retailer Ahold whose positive acquisition experience in North America (in particular, the USA) did not translate into successful acquisitions in Latin America and Asia (Barkema, 2006).

The above arguments lead to the following hypothesis:

_Hypothesis 2:_ Prior region-specific cross-border acquisition experience will be positively associated with acquiring firm shareholder value creation in cross-border acquisitions.

**Moderating role of cultural similarity.** The organizational learning literature posits that the performance implications of organizational experience and learning are often a function of the environmental context (Argote and Miron-Spektor, 2011). This is particularly true in the execution of complex tasks, such as those associated with cross-border acquisitions. In acquisitions, learning from prior experience may not be fully available to acquiring firms because of hindrances in their effective transfer, including those posed by cultural differences (Nadolska and Barkema, 2014). Such differences can pose considerable challenges to knowledge transfer in cross-border acquisitions (Vaara et al., 2012) with research (e.g., Ahern et al., 2012; Datta and Puia, 1995), indicating that cultural dissimilarities are a major obstacle to acquiring firms being able to create shareholder value in such transactions.

We argue that the expected positive relationship between prior industry-specific acquisition experience and value creation will be contingent on the extent of cultural similarity between the home and host countries. Cultural similarity reduces causal ambiguity from the perspective of acquiring firms (Shane et al., 1995) and provides them with an environment within which industry-related routines from prior cross-border acquisitions can be more easily transferred to the focal acquisition. This is often due to lower ‘translation’ needs (Morosini, 2005). In addition, cultural similarity facilitates communication between the acquiring and acquired firms that is central to effective knowledge transfer (Birkinshaw et al., 2000).

Knowledge transfers occur more seamlessly when involved organizations are embedded in similar cultural contexts (Bhagat et al., 2002). On the other hand, cultural dissimilarities are a deterrent to knowledge transfer (Bresman et al., 1999) because routines and practices need to be adapted to a different context (Barkema and Schijven, 2008). Greater adaptation costs, in turn, can be expected to hinder the ability of acquiring firms to capitalize on their prior industry-specific acquisition experience to create shareholder value. Finally, we argue that the extent of cultural similarity has an important bearing on the transfer of learning because it has an important influence on an acquired firm’s willingness to accept and absorb knowledge.
accumulated by the acquiring firm in prior acquisitions. In a similar vein, Minbaeva (2007), based on a review of the knowledge transfer literature, argued that such transfer is influenced by the nature of relationships between knowledge senders and receivers with the motivation of those sending and receiving the knowledge being central to successful knowledge transfer and absorption.

In addition, the work of Levin and Cross (2004) highlights the importance of trust in effective knowledge sharing and transfer. Misunderstanding caused by cultural differences in cross-border acquisitions are often the source of mistrust between an acquiring and acquired firm that can result in the acquired firm being less receptive to knowledge from the acquiring firm. In addition, cultural dissimilarities can cause target firm managers to be more sceptical of the value of knowledge residing in the acquiring firm that it seeks to transfer to the acquired entity. The underlying assumption is that experiential knowledge which is created in the context of a specific culture embodies the belief patterns of that culture (Grant, 1996) and is, consequently, less relevant from the perspective of entities subscribing to a different culture with different belief patterns. In fact, cultural differences are often associated with the NIH (‘not invented here’) syndrome (Kostova, 1999). Since culture embodies specific values, beliefs, and assumptions, it also shapes the interpretation of knowledge-related communication, which is based on the assumption that knowledge can be ‘translated’ across cultures (Kim, 1993). Consequently, when the culture of the sender is different from that of the receiver of knowledge, knowledge transfer is less effective (Kedia and Bhagat, 1988) because of the inability of the sender to frame the knowledge to be transferred in the ‘language’ of the recipient (Borgatti and Cross, 2003). In sum, while cultural similarity is likely to facilitate the transfer of learning from prior acquisitions in the same industry, the opposite is likely to be true when the focal acquisition is characterized by cultural differences.

The effects of cultural similarity between the acquiring and the acquired firm countries on the relationship between region-specific cross-border acquisition experience and value creation are, however, likely to be different. In the context of Hypothesis 2, we discussed how region-specific acquisition experience helps an acquiring firm to surmount the liabilities of regional foreignness and outsidership in cross-border acquisitions. Such experience can be seen as overcoming the challenges posed by cultural dissimilarities and provides acquiring firms with a better understanding of culture-related challenges associated with the undertaking of acquisitions in the region. We therefore posit that the effects of region-specific acquisition experience on shareholder value creation in cross-border acquisitions will not be contingent on the extent of cultural similarity. Region-specific acquisition experience helps acquiring firms acquire knowledge about local markets and also helps them access local networks (Barkema and Vermeulen, 1998). It also helps them overcome the liabilities of outsidership and regional foreignness (Qian et al., 2013) . Learning from prior experiences in a geographic region characterized by significant cultural differences also enables acquiring firms to surmount the adaptation challenges associated with such differences in future acquisitions in the region. In sum, cultural similarity is not salient in the acquiring firm being able to reap the benefits of region-specific cross-border acquisition experience.
The above arguments suggest that while cultural similarity is likely to moderate the relationship between prior industry-specific acquisition experience and shareholder value creation in cross-border acquisitions, it is unlikely to do so in the context of the relationship between region-specific acquisition experience and shareholder value creation. Thus:

**Hypothesis 3**: The positive relationship between prior industry-specific cross-border acquisition experience and acquiring firm shareholder value creation will be stronger in acquisitions undertaken in countries characterized by greater cultural similarity.

Our final hypothesis relates to how region-specific experience influences the moderating effects of cultural similarity on the relationship between industry-specific experience and value creation in cross-border acquisitions. We posit that the moderating effects of cultural similarity on the relationships between industry specific acquisition experience and shareholder value creation in cross-border acquisitions are contingent on the extent of region-specific acquisition experience that is possessed by the acquiring firm.

As firms gain cross-border acquisition experience in a given industry or region, they develop a schema or mental model that can be used to map similar future acquisitions. These schemas, which are based on past acquisition experience, facilitate the management of acquisition processes (when current problems can be juxtaposed to a schema vis-a-vis a collection of analogues), that results in a more efficient identification of solutions (Gick and Holyoak, 1983) and enhanced shareholder value creation. In the previous section we argued that shareholder value creation in acquisitions by acquiring firms with industry-specific acquisition experience is likely to be lower in transactions characterized by low cultural similarity. We attributed it partially to the adaptation challenges that acquiring firms face in the transfer and application of learning and knowledge from prior industry-specific experience to the focal acquisition. When acquiring firms have limited acquisition experience in the region these challenges are likely to be greater. Without a schema derived from prior region-specific acquisition experience, learning based on prior industry-specific experience can generate negative transfer of learning effects when transferred to an acquisition in a culturally dissimilar environment (Haleblian and Finkelstein, 1999). This happens when lack of region-specific acquisition experience results in experiential learning from prior acquisitions being applied to the focal acquisition in the same industry without considering the cultural dissimilarities between the home and host country (Salomon and Perkins, 1989). In other words, the lack of region-specific acquisition experience exacerbates the negative contingency effects of low cultural similarity on the relationship between prior industry-specific acquisition experience and value creation. Absent region-specific acquisition experience, acquiring firms find it more difficult to overcome the challenges posed by cultural dissimilarities in order to realize the benefits associated with prior industry-specific acquisition experience.

In contrast, when acquiring firms have region-specific acquisition experience, the likelihood of negative transfer effects associated with cultural dissimilarities is likely to be lower. That is because learning from prior region-specific acquisition experience
helps acquiring firms benefit from industry-specific acquisition experience even when country environments are culturally dissimilar. Prior region-specific acquisition experience in such instances can be seen as offsetting the drawbacks associated with cultural dissimilarity in influencing the relationship between industry-specific acquisition experience and shareholder value creation. This is particularly true in the context of the service industry acquisitions that tend to be more people-intensive than those in the manufacturing sector and where transactions are often based on learning and knowledge-based competencies. The process orientation of service industry firms (versus a product orientation for manufacturing industry firms) also means that in such acquisitions, experience which results in a superior understanding of regional market conditions can be expected to play a more critical role in overcoming the negative effects of cultural dissimilarities.

Given the above arguments, we surmise that in acquisitions characterized by low cultural similarity, acquiring firms with region-specific acquisition experience are better able to take advantage of the benefits of industry-specific acquisition experience in the creation of shareholder value than firms which do not have region-specific acquisition experience. The effects of region-specific acquisition experience will, however, be different in acquisitions undertaken by acquiring firms in countries with similar cultures to their own. Cultural similarity in such acquisitions means that cultural impediments to learning from prior industry-specific acquisition experience are minimal. In such instances (when involved organizations are embedded in similar cultural contexts) knowledge related to prior industry-specific acquisitions can be transferred seamlessly (Bhagat et al., 2002), resulting in shareholder value creation. In other words, acquiring firms in acquisitions characterized by high cultural similarity will be less reliant on prior region-specific acquisition experience to make the acquisition work (since region-specific acquisition experience is not needed to offset the challenges brought about by cultural dissimilarities). Stated differently, the substitutive effect of prior region-specific acquisition experience, which plays a very important role in the context of acquisitions undertaken in environments with low cultural similarity, is less important in acquisitions characterized by high cultural similarity. High cultural similarity facilitates the transfer and application of learning associated with prior industry-specific acquisition experience to the acquired firm and, consequently, the lack of region-specific acquisition experience is unlikely to disadvantage an acquiring firm in such situations.

In sum, while region-specific acquisition experience can be particularly important in the realization of shareholder value from prior industry-specific acquisition experience in acquisitions characterized by cultural dissimilarities, the same is unlikely to be true when the country cultures of involved firms are similar. Consequently, under conditions of high cultural similarity, we do not expect the relationship between industry-specific acquisition experience and shareholder value creation to be contingent on the level of region-specific acquisition experience possessed by the acquiring firm.

The above arguments lead to the following hypothesis:

**Hypothesis 4**: There will be a three-way interaction between prior industry-specific acquisition experience, cultural similarity, and region-specific experience in determining shareholder value creation in cross-border acquisitions. When cultural
similarity is low, the relationship between industry-specific acquisition experience and shareholder value creation will be contingent on prior region-specific acquisition experience of the acquiring firm, with the relationship being more positive in acquisitions where acquiring firms have significant region-specific acquisition experience. In acquisitions with high cultural similarity, the relationship between industry-specific acquisition experience and shareholder value creation will, however, not be contingent on region-specific acquisition experience.

Figure 1 depicts the conceptual model and identifies the relationships examined in our study.

METHODOLOGY

Sample

The study sample consisted of cross-border acquisitions by US firms in the service sector (SIC >4000) during 1991–2006 that were reported in Thompson Financial’s SDC Platinum database. To be included, an acquisition had to result in the acquiring firm gaining a controlling stake (at least a 51 per cent ownership) in the target firm. In other words, partial acquisitions were excluded. Our sample was also limited to relatively large acquisitions (valued in excess of $150 million). Finally, consistent with the requirements of the buy-and-hold abnormal return (BHAR) methodology, only the first acquisition by an acquiring firm involved in more than one acquisition in a given year was included. The other acquisitions within a year of the focal acquisition were excluded to avoid cross-sectional data dependence (Doukas and Lang, 2003; Lyon et al., 1999). We used a dummy variable to take into consideration the relatively few acquiring firms that were involved in more than one acquisition for a given year. Data availability on study variables resulted in a usable sample of 222 cross-border acquisitions, undertaken in 38 countries. Sample characteristics are provided in Table I.

Measures

Dependent variable. Shareholder value creation (in the 12 months following the focal acquisition) was assessed using the BHAR methodology (Barber and Lyon, 1997;
Mitchell and Stafford, 2000). As Lyon et al. (1999) point out, the strength of this method lies in its ability ‘to yield an abnormal return measure that more accurately represents investor experience’ (p. 198). The BHAR methodology allows for the assessment of abnormal returns over a longer time horizon (one year in our study) and thereby overcomes the limitations associated with the use of narrow windows around the announcement date (in traditional event studies). The traditional event study methodology (Brown and Warner, 1985) has been extensively used in prior acquisition research with shareholder wealth effects being assessed as CARs (cumulative abnormal returns) or CPEs (cumulative prediction errors). However, as Oler et al. (2008), among others, have pointed out, there are important limitations of the CAR methodology in the assessment of wealth effects over longer time periods. The BHAR methodology was specifically developed to assess longer-term abnormal gains or prediction errors (e.g., in the year following the acquisition as was the case in our study). The BHAR approach is viewed as being more appropriate in such cases and, not surprisingly, has become the most popular approach to estimating long-term abnormal gains in the finance area (Mitchell and Stafford, 2000).
The 12-month return from a buy-and-hold (BHR) strategy was computed for the year following the completion date of an acquisition. This BHR was then referenced against a benchmark BHR (based on a matched portfolio consisting of firms that were similar to the acquiring firm in terms of market capitalization, book-to-market ratio, and previous performance) to derive the BHAR associated with the acquisition. The three steps involved in the computation of long-term BHAR are as follows: (1) generation of benchmark portfolios, (2) matching a firm to its benchmark portfolio, and (3) computation of BHAR. To construct the benchmark portfolio, firm-size reference portfolios were first formed by ranking all NYSE firms in deciles based on the market capitalization in the acquisition completion month; the smallest decile was further divided into quintiles. With the breakpoints for each portfolio, AMEX and NASDAQ firms were assigned to one of the 14 portfolios. Next, each of the 14 size-based portfolios was divided into quintiles based on the market-to-book ratios in the completion month of the acquisition. This resulted in a total of 70 portfolios. Finally, for each of the 70 portfolios, we constructed three reference portfolios based on previous performance. This brought the total number of portfolios to 210. Each acquiring firm was then matched to one of the 210 portfolios based on size, book-to-market ratio, and past performance during the completion month. The BHR for the portfolio was then computed by first compounding the returns on the securities within the portfolio and then summing across all the firms in the portfolio using the formula:

$$R_{bh}^{ps} = \sum_{s=t}^{s+\tau} \left[ \prod_{t=s}^{t+\tau} (1 + R_{it}) \right] - 1$$

where,
- $R_{it}$: return on security $i$ in month $t$,
- $\tau$: period of investment in months; and
- $n_s$: number of securities traded in month $s$, the beginning period for return calculation.

The sample firm’s BHR is computed as the compounded return for the period of investment:

$$R_{bh}^{it} = \sum_{i=1}^{n_s} \left[ \prod_{t=s}^{s+\tau} (1 + R_{it}) \right] - 1$$

Finally, the difference between the BHR of the acquiring firm from the sample and that of the equally-weighted matched portfolio was computed to derive the BHAR. The BHAR for the 12-month post-acquisition period, starting with the month after the completion date, was computed as follows:

$$AR_{it} = R_{it} - E(R_{pt})$$

We compared the long-term performance of the sample firm to the benchmark portfolios based on key characteristics (e.g., market capitalization and market-to-book
ratio) to control for sources of misspecification bias such as new listing bias and re-balancing bias (Barber and Lyon, 1997).

**Independent and Moderator Variables**

*Industry-specific acquisition experience* was measured as the total number of cross-border acquisitions undertaken by the acquiring firm in the same 3-digit SIC industry as the target firm in the five years preceding the focal acquisition.[3] This measure of industry similarity is consistent with that used by Fowler and Schmidt (1989), and more recently by Kang and Kim (2010). Likewise, *region-specific acquisition experience* was computed as the total number of cross-border acquisitions undertaken by the acquiring firm in the five years preceding the focal acquisition in the same geographic region. For the latter, we classified host countries into different geographic regions using the scheme developed by United Nations. The 17 world regions are as follows: America, Asia, Caribbean, Central America, Eastern Africa, Eastern Asia, Europe, Middle Africa, Northern Africa, Oceania, South America, South-Eastern Asia, Southern Africa, Southern Asia, Transition Economies, Western Africa, and Western Asia. Data for both the aforementioned variables were obtained from the SDC database.

*Cultural similarity* was derived from measures of culture provided in the GLOBE study (House et al., 2004). The GLOBE study distinguishes between practices (‘as is’) and values (‘as should be’) in assessing culture. The GLOBE measures of culture overcome some of the limitations of the Hofstede measures (e.g., single company data source, significant elapsed time since data collection and analysis, and limited geographic coverage). In addition to being more recent and comprehensive (the outcome of a collaborative effort by 160 researchers from multiple countries), the time frame of the GLOBE measures more closely parallels that used in our study. Cultural ‘practice’ measures were used to compute cultural similarity – its use in the computation of cultural similarity or dissimilarity is consistent with recent studies that have examined the role of national culture in international acquisitions (Vaara et al., 2012). First, cultural distance was assessed using a Euclidian distance measure between the USA and the acquired firm country (Kogut and Singh, 1988). Next, cultural similarity was computed by subtracting the cultural distance score from the theoretical maximum value for cultural distance (i.e., 6). For example, if the cultural distance value of the observation is 3.25, the cultural similarity value associated with the acquisition is \((6 - 3.25)\) or 2.75.

**Control Variables**

Our study controlled for several factors that have been shown to influence acquisition performance. First, we controlled for *acquisition transaction value* which was operationalized as the natural logarithm of the transaction value in USD millions (Meschi and Metais, 2006). Also, we controlled for *acquisition relatedness* given arguments that related acquisitions ought to exhibit superior performance because of potential synergies. Relatedness was measured as a dichotomous \((0,1)\) variable with an acquisition deemed related \((acquisition\_relatedness = 1)\) when both firms were in the same 3-digit SIC industry.
In addition, we used several firm-level controls. These include acquiring firm size, profitability, growth, free cash flow, and the level of firm internationalization. We control for the size of the acquiring firm based on the argument that larger firms, with more resources available for the undertaking and implementation of acquisitions, ought to exhibit superior performance outcomes in acquisitions. As is common in the literature (e.g., Datta et al., 2009), acquiring firm size was measured as the number of employees in the firm (using the logarithmic transformation). Also, we controlled for pre-acquisition firm profitability and growth. While profitability was measured as the average ROE in the three years preceding the acquisition in question, firm growth was assessed as the percentage increase in firm sales over the three-year period preceding an acquisition. In addition, we use free cash flow (a measure of organizational slack) as a control in our study. Excessive free cash flow has been associated with negative acquisition outcomes when managers undertake suboptimal acquisitions rather than distribute the same in the form of shareholder payouts (Jensen, 1986). Following Lang et al. (1991), free cash flow (operating income before depreciation) was normalized by total assets since the same cash flow has different implications for firms of different sizes. Because cash levels are industry specific, the industry-adjusted measure using Fama and French’s 48 industry classifications (Harford et al., 2008) was used in our study. In addition, consistent with prior research in international business, acquiring firm internationalization was defined as the ratio of foreign sales to total sales. For the above measures, firm data were obtained from Compustat and acquisition-related data from the SDC database.

In addition to the above, we controlled for industry and macroeconomic factors that have been shown to affect acquisition performance. These include acquiring firm industry growth which was assessed as the industry sales growth over the three years preceding the acquisition and acquiring firm industry advertising intensity which was measured as the average R&D intensity of firms in the 3-digit SIC industry. In addition, we controlled for host country GDP growth (computed as the increase in country GDP in the three years preceding the acquisition) and host country political risk. It has been argued that locations with high political risk represent greater external uncertainty (Pan and Tse, 2000), thereby increasing the challenge that acquiring firms face in creating shareholder value. Data on GDP were obtained from the World Bank database while Political Risk Services (PRS) Group’s International Country Risk Guide (e.g., Click and Weiner, 2010) was the source of our political risk data. Since higher values (reported on a scale of 0–100) reflect lower political risk, we reverse coded the measure for easier interpretation. Also, since the ‘gravity’ literature in international trade (e.g., Hakanson and Dow, 2012) suggests that geographic distance can be detrimental to acquisition performance by hampering information flows and communication (Ragozzino, 2009), we controlled for the same in our study. Geographic distance was measured as the distance (in thousand kilometres) between the capital cities of the acquiring and acquired firm countries using the CEPII distance database. Finally, we controlled for acquisition time period by including two variables, Period1 and Period2. Period1 took the value of ‘1’ for acquisitions that were made during the period 2000–03 (period of economic downturn in the USA and Europe) and Period2 took a value of ‘1’ for acquisitions made during 2004–06 (period of economic growth). Acquisitions
during the period 1991–99 (also a period of economic growth) were characterized by \textit{Period1} and \textit{Period2} both being ‘0’.

**RESULTS**

The means, standard deviations, and zero-order correlations of study variables are provided in Table II. Data presented in Tables I and II indicate that 44 per cent of the acquisitions in the sample were related acquisitions – that is, they involved firms that were in the same 3-digit SIC code industry. The number of prior cross-border acquisitions in the same industry as the acquired firm in the five years preceding the acquisition ranged from 0 to 12, while the number of acquisitions in the same geographic region as the acquired firm ranged from 0 to 14. While the 222 cross-border acquisitions in the sample involved 38 countries, data presented in Table I indicate that a majority of them involved firms in developed countries, with the UK, Canada, Germany, and France being the top four countries in terms of the number of acquisitions.

BHAR in the year following the acquisition was computed by comparing an acquiring firm’s returns to that of the benchmark portfolio. Among acquisitions in our sample, the number transactions that were associated with negative abnormal returns (58.6 per cent of the acquisitions) outnumbered those with positive returns (41.4 per cent of the acquisitions). The mean 12-month BHAR for sample firms at $0.06$, was statistically non-significant (we used Ikenberry et al.’s (1995) skewness-adjusted bootstrapped $t$-statistic).

Hierarchical OLS regressions were used to test Hypotheses 1–4. Intra-firm correlations associated with observations from the same firm in different years can result in underestimated standard errors and inflated significance levels in traditional regression (Williams, 2000). To address the potential problem arising out of a few of the acquiring firms in our sample being involved in more than one cross-border acquisition over the study period, we used the cluster option (in STATA 13) as suggested by Wooldridge (2002). The cluster option computes clustered robust (i.e., Huber–White) standard errors which provides for more conservative significance tests associated with predictor variables.

The results of our regression analyses are presented in Table III, with Model 4 representing the full model (incorporating all variables and interaction terms). Model 1 represents the base regression model with the control and moderator variables. The mean VIF (variance inflation factor) for the variables in Model 1 was 1.25. Model 2, with a mean VIF value of 1.39, incorporates the main effects of prior acquisition experience. It indicates that prior industry-specific is positively associated (at $p < 0.05$) with acquiring firm shareholder value creation (assessed as BHARs). Thus, Hypothesis 1 was supported. Likewise, results indicate that region-specific acquisition experience is positively associated (at $p < 0.01$) with shareholder value creation, providing support for Hypothesis 2.

Model 3 relates to the potential moderating effects of cultural similarity on the relationship between prior industry-specific acquisition experience and shareholder value creation (Hypothesis 3). Following Aiken and West (1991), we mean-centred the
Table II. Descriptive statistics and correlations\textsuperscript{a}

\begin{tabular}{lcccccccccccccccccc}
\hline
 & Mean & SD & 1 & 2 & 3 & 4 & 5 & 6 & 7 & 8 & 9 & 10 & 11 & 12 & 13 & 14 & 15 & 16 & 17 \\
\hline
1. 12-month BHAR & -0.06 & 0.32 & & & & & & & & & & & & & & & & & & \\
2. Acquisition value & 5.99 & 0.89 & -0.02 & & & & & & & & & & & & & & & & & & \\
3. Acquisition relatedness & 0.44 & 0.50 & 0.12 & 0.03 & & & & & & & & & & & & & & & & & & \\
4. Multiple acquisitions & 0.13 & 0.33 & 0.05 & -0.01 & 0.04 & & & & & & & & & & & & & & & & & & \\
5. Overall acquisition experience & 8.32 & 8.44 & 0.05 & 0.07 & -0.07 & 0.29 & & & & & & & & & & & & & & & & & & \\
6. Acquiring firm size & 2.20 & 0.23 & 0.13 & 0.23 & -0.08 & 0.20 & 0.29 & & & & & & & & & & & & & & & & & & \\
7. Acquiring firm profitability & 0.07 & 0.30 & -0.07 & -0.13 & -0.10 & 0.04 & 0.12 & 0.44 & & & & & & & & & & & & & & & & & & \\
8. Acquiring firm growth & 1.11 & 2.67 & -0.12 & -0.10 & 0.14 & -0.05 & -0.03 & -0.26 & v0.24 & & & & & & & & & & & & & & & & & & \\
9. Acquiring firm free cash flow & 0.04 & 0.12 & -0.06 & -0.02 & 0.19 & 0.00 & 0.08 & 0.15 & 0.20 & -0.03 & & & & & & & & & & & & & & & & & & \\
10. Acquiring firm internationalization & 0.26 & 0.23 & 0.01 & -0.05 & 0.00 & 0.18 & 0.16 & -0.02 & -0.18 & 0.05 & 0.00 & & & & & & & & & & & & & & & & & & \\
11. Acquiring firm industry growth & 0.44 & 0.44 & -0.07 & -0.03 & 0.17 & 0.05 & 0.01 & -0.20 & -0.02 & 0.21 & -0.01 & 0.07 & & & & & & & & & & & & & & & & & & \\
12. Acquiring firm industry advertising intensity & 0.13 & 0.32 & -0.08 & -0.06 & 0.18 & -0.08 & -0.04 & -0.26 & -0.09 & 0.34 & 0.01 & 0.13 & 0.19 & & & & & & & & & & & & & & & & & & \\
13. Host country GDP growth & 0.10 & 0.06 & -0.08 & 0.05 & 0.04 & 0.13 & 0.06 & 0.02 & 0.05 & 0.00 & 0.01 & 0.09 & 0.11 & 0.06 & & & & & & & & & & & & & & & & & & \\
14. Host country political risk & 18.39 & 7.65 & 0.05 & -0.11 & 0.07 & 0.11 & 0.02 & 0.14 & 0.04 & -0.07 & 0.06 & 0.17 & 0.03 & 0.06 & 0.13 & & & & & & & & & & & & & & & & & & \\
15. Geographic distance & 6.02 & 3.27 & 0.03 & 0.03 & -0.09 & 0.05 & 0.07 & 0.02 & -0.07 & 0.05 & -0.06 & 0.18 & 0.05 & 0.03 & 0.14 & 0.31 & & & & & & & & & & & & & & & & & & \\
16. Cultural similarity & 4.98 & 0.67 & 0.04 & 0.10 & 0.13 & -0.24 & -0.07 & -0.03 & 0.03 & 0.05 & 0.13 & -0.18 & 0.01 & 0.10 & -0.07 & -0.17 & -0.26 & & & & & & & & & & & & & & & & & & \\
17. Industry-specific CB acquisition experience & 0.89 & 1.74 & 0.21 & 0.10 & 0.29 & 0.22 & 0.44 & 0.20 & 0.05 & 0.08 & 0.13 & 0.26 & 0.12 & 0.03 & 0.07 & 0.07 & 0.12 & 0.16 & & & & & & & & & & & & & & & & & & \\
18. Region-specific CB acquisition experience & 1.40 & 2.40 & 0.17 & -0.03 & -0.11 & 0.29 & 0.62 & 0.25 & 0.13 & 0.03 & 0.03 & 0.22 & 0.05 & -0.02 & -0.05 & -0.16 & 0.02 & -0.13 & 0.40 & & & & & & & & & & & & & & & & & & \\
\hline
\textsuperscript{a} Correlations above 0.13 are significant at p < 0.05, N=222; based on two-tailed tests.
Table III. Regression results on the effects of industry- and region-specific cross-border acquisition experience and cultural similarity on shareholder value creation

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition value</td>
<td>-0.026 (0.025)</td>
<td>-0.022 (0.023)</td>
<td>-0.023 (0.023)</td>
<td>-0.026 (0.024)</td>
</tr>
<tr>
<td>Acquisition relatedness</td>
<td>0.104* (0.048)</td>
<td>0.065 (0.048)</td>
<td>0.068 (0.047)</td>
<td>0.074 (0.047)</td>
</tr>
<tr>
<td>Multiple acquisitions</td>
<td>0.023 (0.074)</td>
<td>-0.004 (0.063)</td>
<td>0.007 (0.063)</td>
<td>-0.025 (0.062)</td>
</tr>
<tr>
<td>Overall acquisition experience</td>
<td>0.001 (0.002)</td>
<td>-0.006* (0.002)</td>
<td>-0.006* (0.003)</td>
<td>-0.007* (0.003)</td>
</tr>
<tr>
<td>Acquiring firm size</td>
<td>0.241+ (0.139)</td>
<td>0.163 (0.138)</td>
<td>0.177 (0.135)</td>
<td>0.197 (0.134)</td>
</tr>
<tr>
<td>Acquiring firm profitability</td>
<td>-0.137* (0.057)</td>
<td>-0.162** (0.055)</td>
<td>-0.175** (0.054)</td>
<td>-0.185*** (0.054)</td>
</tr>
<tr>
<td>Acquiring firm growth</td>
<td>-0.015+ (0.009)</td>
<td>-0.018** (0.006)</td>
<td>-0.019*** (0.006)</td>
<td>-0.019*** (0.006)</td>
</tr>
<tr>
<td>Acquiring firm free cash flow</td>
<td>-0.213 (0.159)</td>
<td>-0.243 (0.159)</td>
<td>-0.218 (0.157)</td>
<td>-0.249 (0.161)</td>
</tr>
<tr>
<td>Acquiring firm internationalization</td>
<td>-0.012 (0.102)</td>
<td>-0.135 (0.096)</td>
<td>-0.163 (0.097)</td>
<td>-0.156 (0.099)</td>
</tr>
<tr>
<td>Acquiring firm industry growth</td>
<td>-0.023 (0.052)</td>
<td>-0.042 (0.050)</td>
<td>-0.049 (0.050)</td>
<td>-0.044 (0.050)</td>
</tr>
<tr>
<td>Acquiring firm industry advertising intensity</td>
<td>-0.026 (0.064)</td>
<td>-0.020 (0.057)</td>
<td>-0.013 (0.056)</td>
<td>-0.019 (0.057)</td>
</tr>
<tr>
<td>Host country GDP growth</td>
<td>-0.484 (0.461)</td>
<td>-0.342 (0.455)</td>
<td>-0.372 (0.409)</td>
<td>-0.294 (0.428)</td>
</tr>
<tr>
<td>Host country political risk</td>
<td>0.000 (0.004)</td>
<td>0.003 (0.003)</td>
<td>0.002 (0.003)</td>
<td>0.003 (0.003)</td>
</tr>
<tr>
<td>Geographic distance</td>
<td>0.006 (0.006)</td>
<td>0.004 (0.006)</td>
<td>0.005 (0.006)</td>
<td>0.006 (0.006)</td>
</tr>
<tr>
<td>Period1</td>
<td>0.010 (0.060)</td>
<td>0.008 (0.057)</td>
<td>0.014 (0.056)</td>
<td>0.006 (0.054)</td>
</tr>
<tr>
<td>Period2</td>
<td>0.034 (0.054)</td>
<td>0.060 (0.052)</td>
<td>0.073 (0.051)</td>
<td>0.070 (0.052)</td>
</tr>
<tr>
<td>Cultural similarity</td>
<td>0.037 (0.032)</td>
<td>0.057+ (0.033)</td>
<td>0.053+ (0.030)</td>
<td>0.075* (0.032)</td>
</tr>
<tr>
<td>Industry-specific CB acquisition experience</td>
<td>0.041* (0.018)</td>
<td>0.050** (0.017)</td>
<td>0.047** (0.017)</td>
<td>0.047** (0.017)</td>
</tr>
<tr>
<td>Region-specific CB acquisition experience</td>
<td>0.034** (0.012)</td>
<td>0.031** (0.010)</td>
<td>0.038** (0.012)</td>
<td>0.038** (0.012)</td>
</tr>
<tr>
<td>Industry-specific CB acquisition experience × Cultural similarity</td>
<td>0.047* (0.019)</td>
<td>0.080*** (0.024)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Region-specific CB acquisition experience × Cultural similarity</td>
<td>0.010 (0.015)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry-specific CB acquisition experience × Region-specific CB acquisition experience</td>
<td>-0.002 (0.004)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry-specific CB acquisition experience × Cultural similarity × Region-specific CB acquisition experience</td>
<td>-0.012** (0.005)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.095</td>
<td>0.168***</td>
<td>0.197***</td>
<td>0.218***</td>
</tr>
<tr>
<td>Change in R²</td>
<td>0.073</td>
<td>0.029</td>
<td>0.021</td>
<td></td>
</tr>
</tbody>
</table>

*p < 0.10; **p < 0.05; ***p < 0.01; n = 222; based on two-tailed tests.
variables used to compute the interaction terms. Our results show that the interaction term comprising industry-specific acquisition experience and cultural similarity is positive and statistically significant (p < 0.05). Hence, Hypothesis 3 was supported and our results indicate that the positive effect of prior industry-specific cross-border acquisition experience on value creation (12-month BHAR) is more pronounced in acquisitions characterized by high levels of cultural similarity. Figure 2 graphically represents the effects of industry-specific acquisition experience on shareholder value creation for high and low levels of cultural similarity. The line representing the relationship in the context of acquisitions associated with high cultural similarity was steeper when compared to the line associated with low cultural similarity, indicating that cultural similarity has a positive moderating effect on the relationship between prior industry-specific acquisition experience and shareholder value creation. The mean VIF value in Model 3 with the interaction effect was 1.38.

Finally, Model 4 includes the three-way interaction term involving industry-specific acquisition experience, cultural similarity, and region-specific acquisition experience on value creation, along with the lower order (two-way) interaction terms involving region-specific experience. The mean VIF in this model was 1.69. This, and the other VIF values reported in the context of the other three models suggest that multicollinearity was not a problem in our study – the VIF values are well below the cut-off value of 10 identified by Neter et al. (1990) and Cohen et al. (2003). The R² for the full model was 0.218, a significant increase over the base model with control variables (with an R² of 0.094). Consistent with our expectation, the three-way interaction term was negative and significant (at p < 0.05), providing support for Hypothesis 4. Again, for easier interpretation, we graphed the same in Figure 3. The graphs highlight that when cultural similarity is low, the relationship between industry-specific cross-border acquisition experience and value creation is more when acquiring firms have significant region-specific acquisition experience. They also indicate that the relationship between prior industry-specific acquisition experience and value creation is negative in acquisitions characterized by low cultural similarity and the acquiring firms have low prior region-specific experience. It indicates that application of knowledge based on prior industry-specific acquisition experience in the context of acquisitions...
undertaken in culturally different environments often leads to undesirable outcomes, especially when acquiring firms do not possess adequate region-specific acquisition experience. In sum, our results suggest that the existence of region-specific acquisition experience offsets the negative effects of cultural distance on a firm’s ability to leverage learning and knowledge associated prior industry-specific acquisition experience to create shareholder value in cross-border acquisitions. The slope different test (Dawson and Richter, 2006) indicates that the difference for lines 3 and 4 (for high and low region-specific experience in the context of low cultural similarity) in Figure 3 is statistically significant at \( p < 0.05 \), providing additional support for Hypothesis 4.

**DISCUSSION**

In this study, we drew on the organizational learning and learning transfer theory literatures to argue that, ceteris paribus, cross-border acquisitions by acquiring firms which possess prior acquisition experience in the industry and the geographic region of the acquired firm are more likely to result in acquisition-related shareholder value creation. Our study was based on a sample of acquisitions in the service sector, an area that has been significantly under-represented in cross-border acquisition research. Since service industry ‘products’ are largely intangible with value residing in the human capital and knowledge-based assets of the firm (Hitt et al., 2006), we reasoned that experiential learning related to prior acquisition experience should play a particularly important role in future acquisitions undertaken by the service firm. The use of the BHAR methodology in our study allowed us to examine value creation over a longer horizon (12 months following the acquisition).

While our results indicate that cross-border acquisitions, on average, do not create value for the shareholders of acquiring firms, we observed significant variability in the wealth effects across individual acquisitions. In explaining this variability, our findings provide strong support for our hypotheses on the direct effects of industry-specific and region-specific cross-border acquisition experience and attest to the hypothesized benefits that such experiences have in cross-border acquisitions. These findings are consistent with the tenets of organizational learning and learning transfer theories which
postulate that learning from prior experiences contribute to the development and refiment of organization routines that can benefit subsequent organizational actions when they can be meaningfully transferred. In the context of cross-border acquisitions, the inducement of an ‘acquisition schema’ based on prior industry-specific and region-specific acquisition experience facilitates the transfer of experiential learning. At the same time, ‘near’ transfers, wherein issues can be relatively easily addressed because of their close cognitive proximity to those already experienced in prior acquisitions (Perkins and Salomon, 1992), reduces the risk that learning from prior acquisitions will be misapplied in the context of a focal acquisition in the same industry or geographic region. In particular, our finding related to the effects of region-specific acquisition experience highlights the importance of regional experience in enabling acquiring firms to overcome the liabilities of regional foreignness and outsidership in cross-border acquisitions. Being able to do so helps acquiring firms develop a better understanding of such markets and, in the process, avoid the costly mistakes that often plague such acquisitions.

Very importantly, our study findings indicate that the environmental context within which experiential knowledge is leveraged is central to the realization of benefits associated with prior industry-specific acquisition experience. We find evidence that such benefits are more pronounced in acquisitions that involve targets in culturally similar countries and that cultural differences often serve to nullify the benefits of such experience. Given that transfer of learning requires significant interactions between involved firms, cultural dissimilarities which often cause friction and impede information flows can attenuate the realization of benefits associated with industry-specific acquisition experience. Finally, our findings point to the fact that region-specific experience helps offset the negative contingency effect of cultural dissimilarity on the relationship between industry-specific acquisition experience and value creation. Stated differently, acquiring firms can still benefit from prior industry-specific acquisition experience in acquisitions undertaken in culturally different countries provided that they have adequate region-specific acquisition experience. In contrast, the absence of prior region-specific experience makes it particularly difficult for acquiring firms to realize the benefits of prior industry-specific acquisition experience in transactions involving culturally dissimilar countries. Indeed, our results suggest that the application of industry-specific routines that are developed and refined in one cultural context to a different one can result in undesirable consequences. Inappropriate generalization, wherein misplaced confidence results in acquiring firms attempting to apply knowledge from prior industry-specific acquisition experience to a future acquisition without taking into consideration the cultural context, can be particularly detrimental from the perspective of acquisition performance.

Our findings are also interesting from the perspective of what they do not reveal. Our study failed to find support for the traditional learning curve perspective, suggesting that experience related benefits in acquisitions depend on the extent of total acquisition experience possessed by firms. In addition, we conducted supplemental analyses to specifically examine the effects of non-industry specific and non-region specific acquisition experience (i.e., acquisition experience in industries and geographic regions other than that of the acquired firm in the focal acquisition) on shareholder value
creation. The results presented in Table IV indicate that these two types of experiences do not have a significant impact on acquisition outcomes (i.e., BHARs).

### Study Contributions and Limitations

In contributing to the literature on cross-border acquisitions, our study provides several interesting insights into the effects of prior acquisition experience on acquisition performance. Unlike previous work on cross-border acquisition performance which has primarily been based on transaction cost and internalization theories (Shimizu et al., 2004), our study draws on organization learning (e.g., Barkema and Schijven, 2008; Levitt and March, 1988) and transfer of learning (Ellis et al., 2011) perspectives to examine how experiential learning impacts value creation in cross-border acquisitions. The organizational learning literature views firms as routine-based systems wherein prior experiences are codified into routines that form the basis of future behaviour. In the context of acquisitions, such experiences have an important bearing on how firms deal with various facets of the acquisition process – from target evaluation, selection, and the due diligence process, to negotiations and post-acquisition assimilation (Finkelstein and Halebian, 2002; Vermeulen and Barkema, 2001). However, the primary thesis underlying our study is that not all routines are equally valuable in facilitating cross-border acquisition performance. Indeed, our findings

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specifically suggest that routines based on prior acquisitions in unrelated industries are less valuable than those developed in the context of the industry of the focal acquisition. Likewise, we find that routines based on prior acquisition experience in the same geographic region are more important than those based on acquisitions undertaken in other regions. In sum, our study findings highlight that what matters is not the amount of prior acquisition experience but the content of experience. Positive outcomes from the transfer of experiential learning are much more likely when they can be effectively transferred and applied to the focal transaction because they are based on prior experiences in similar, rather than dissimilar, contexts.

Our examination of the effects of region-specific acquisition experience also contributes to the literature on the integration of the internalization and internationalization models of international expansion advocated by Rugman and Verbeke (2004). As companies enhance their experiential learning in the region, they incrementally expand their commitments to the region in accordance with the internationalization model (Johanson and Vahlne, 1977, 1990). In the process, they expect their prior experience in the region to help them identify mechanisms for the formulation and implementation of strategies that contribute to improved performance. The same is true in the context of cross-border acquisitions. When acquiring firms are able to use their network and knowledge resources developed in the context of prior acquisitions in the region, they become more adept at overcoming the liabilities of foreignness and outsidership that would otherwise negatively impact the performance of an acquisition.

An important element of our study is our focus on the service sector in cross-border acquisitions. As Capar and Kotabe (2003) note, the service sector has been largely neglected in international business research. Yet this sector now accounts for a majority of the cross-border acquisition activity – as Merchant and Gaur (2008) point out, nearly 60 per cent of the cross-border acquisitions in 2006 were undertaken in the service sector. Our review of the cross-border acquisitions literature revealed that studies on acquisition performance have, almost exclusively, been based on samples of manufacturing industry firms. Indeed, barring a few single industry studies by Amihud et al. (2002), Boubakri et al. (2008), and Gleason et al. (2006), research on the performance of service sector cross-border acquisitions is virtually non-existent. Our study is, to the best of our knowledge, the first to examine how specific prior acquisition experience impacts the performance of cross-border acquisitions by service industry firms, partially filling this important void.

The findings of our study also have important implications from the standpoint of managers involved in cross-border acquisitions. With increased globalization, more firms in the service sector are diversifying into international markets. The growing popularity of cross-border acquisitions in the service sector points to the fact that many firms are favouring an acquisition-based route in their international expansion efforts. While such acquisitions should be approached with caution (since, on average, they do not create shareholder value), our findings indicate that they are more likely to do so when the firm possesses prior acquisition experience in the industry and the geographic region of the target firm. Our recommendation to managers seeking to enhance shareholder value is that, ceteris paribus, they give preference to acquisitions in industries and geographic regions where they have prior experience in the
pursuance of cross-border acquisitions. In addition, based on our findings we suggest that managers in cross-border acquisitions pay particular attention to the cultural context within which acquisitions are undertaken and recognize that the benefits of prior experience (especially, industry-specific experience) may be difficult to realize in environments characterized by significant cultural dissimilarities. Indeed, they need to exercise caution when relying on their accumulated industry-specific acquisition experience in acquisitions undertaken in such environments since inappropriate generalization in culturally unfamiliar contexts can be particularly detrimental from the standpoint of acquisition performance. However, as our findings indicate, prior acquisition experience in the region can help mitigate the negative contingency effects of cultural dissimilarities.

A useful contribution of our study to the value creation literature in the areas of strategic management and international business involves our use of the BHAR methodology. We believe that, given its benefits, this methodology holds significant promise for research on value creation in a broad array of international strategies (e.g., strategic alliances, licensing, and greenfield investments) where outcomes are difficult to accurately predict at the time of announcement. While the BHAR approach is particularly useful in the assessment of longer term value creation (Mitchell and Stafford, 2000), its use depends on the construction of carefully matched portfolios of firms to assess abnormal returns. However, it must be recognized that constructing portfolios that represent ‘perfect matches’ is impossible. Moreover, in using the BHAR methodology, one has to take into consideration the skewness of the individual firm’s long-term abnormal returns. The latter problem can, however, be relatively easily addressed using the bootstrapping procedure suggested by Ikenberry et al. (1995) that we employ in our study.

Like any other study, the findings of our research ought to be examined in the context of study limitations. For one, we do not purport to examine the process by which learning is in actuality transferred to the focal acquisition. Indeed, it is quite likely that the transfer process might have a significant impact on the success of learning transfer. The issue of how acquiring firms transfer their experiential learning and knowledge to subsequent cross-border acquisitions merits particular attention in future research. The findings of such studies, which can be undertaken using a combination of fine-grained (via the use of individual case studies) and coarse-grained (using cross-sectional analysis using large samples) methodologies, should provide particularly important and interesting insights. We also recognize that our study represents an initial effort towards exploring the effects of industry- and region-specific experience and, while they did explain significant variance in shareholder value creation, finer-grained measures may reveal a more nuanced picture of the relationships examined in our study. For example, in our assessment of region-specific experience, we used the UN classification involving 17 world regions. However, the relatively broad definition of regions results in some intra-region variability. Consequently, prior experience in one country within that region may not be fully applicable to another country in the same region because of intra-region differences. Moving forward, scholars may choose to develop a finer-grained measure of regional experience to more accurately capture its effect on acquisition performance.
In conclusion, while our study findings do provide interesting insights, they also highlight the need for additional research. Clearly there are significant opportunities for meaningful future research and much work remains towards obtaining a better understanding of the complex relationships between acquisition experience, knowledge, and outcomes in cross-border acquisitions. We hope this study informs and stimulates further research in this regard.

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NOTES

[1] Winner’s curse refers to situations where winning a bid to acquire a firm can actually be detrimental from the perspective of the shareholders of the bidding firm. It happens when bidding firm managers overpay for the target firm based on an over-optimistic assessment of the synergistic benefits associated with the acquisition.

[2] Akhigbe et al. (2007) define partial acquisition as ‘an acquisition of less than 50% of the target’s shares’ (p. 3083). Eighty-eight per cent of the acquisitions in our sample involved a full acquisition where the acquiring firm acquired 100 per cent of the acquired firm.

[3] Robustness checks conducted using a ten-year time frame to compute prior industry-specific and region-specific experience provided very similar results.

REFERENCES


Acquisition Experience, Cultural Similarity, and Value Creation


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