The double-edged sword of cultural distance in international acquisitions

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Abstract

This study aims to bring together seemingly contradicting arguments in the literature about the role of cultural distance in international acquisitions. We offer a model that postulates that cultural distance relates negatively to international acquisition performance because it taxes integration capabilities during international acquisitions, but that cultural distance also elevates the positive association of integration capabilities and international acquisition performance because it provides more learning opportunities that can only be exploited with strong integration capabilities. Empirical tests with a sample of international acquisitions by 118 US multinational companies provide support for the proposed model. On one hand, we find that cultural distance impedes understandability of key capabilities that need to be transferred, and constrains communication between acquirers and their acquired units, bringing about a negative indirect effect on acquisition performance. On the other hand, we find that cultural distance enriches acquisitions by enhancing the positive effects of understandability and communication on acquisition performance. Acquirers that can overcome the impeding effects of cultural distance on understanding key capabilities and effective communication appear to reap significant performance gains. Our study provides initial support for a double-edged sword effect of cultural differences on acquisition performance, and illustrates the importance of integration capabilities.


Keywords: cultural distance; international acquisitions; capabilities and capability development

INTRODUCTION

The alluring size of the world economic market, and continuing improvement of communication and transportation technologies, set the stage for progressively more international empire building by corporate executives (e.g., Bartlett & Ghoshal, 1991; Buckley & Casson, 1976; Kogut & Zander, 1993). In the late 1990s it became clear that multinational enterprises (MNEs) increasingly use mergers and acquisitions as an important vehicle to achieve this international expansion. “Globalization” became the main driver for the last merger wave of the 20th century. In 1998 worldwide acquisition activity doubled compared with the previous year, reached $3.3 trillion in 1999, and peaked at almost $3.5 trillion in 2000. After several years of lower worldwide acquisition numbers, activity soared again to a record high of $4.5 trillion in 2007, of which a record-breaking 47% involved cross-border deals.
(Platt, 2008). The recent global financial crisis may further fuel international acquisition activity, as many Western MNEs will be restructuring, and may become top acquisition targets not only for other Western MNEs but also for emerging-market MNEs (Ferraro & Ignotavicz, 2008; Kawasaki & Nihen, 2008). Nevertheless, the effective management of international acquisitions appears to be extremely difficult for MNEs. For example, the consulting firm, KPMG, revealed that over one third of the interviewed executives attributed acquisition failure to cultural differences (Kelly et al., 1999). Similarly, empirical research on international acquisitions emphasizes the role of cultural distance, or the degree to which cultural values of an acquirer’s country are different from those of the acquired unit’s country (Kogut & Singh, 1988). However, empirical evidence about a possible role for cultural distance in explaining variance in international acquisition performance is far from conclusive (Stahl & Voigt, 2005). The findings range from support for a negative effect (Datta & Puia, 1995) to support for a positive effect of cultural distance on international acquisition performance (Morosini, Shane, & Singh, 1998).

Anecdotal accounts and consulting reports commonly point to the role of cultural differences between countries to explain complications in international acquisition management. For example, KPMG’s report indicated that over one third of the interviewed executives attributed acquisition failure to cultural differences (Kelly et al., 1999). Similarly, empirical research on international acquisitions emphasizes the role of cultural distance, or the degree to which cultural values of an acquirer’s country are different from those of the acquired unit’s country (Kogut & Singh, 1988). However, empirical evidence about a possible role for cultural distance in explaining variance in international acquisition performance is far from conclusive (Stahl & Voigt, 2005). The findings range from support for a negative effect (Datta & Puia, 1995) to support for a positive effect of cultural distance on international acquisition performance (Morosini, Shane, & Singh, 1998).

Similarly, authors have offered seemingly contradictory arguments to explain the relationship between cultural distance and international acquisition performance. A negative view stresses that cultural distance taxes the implementation of acquisitions and their success. Much of the popular press and some empirical research (Datta & Puia, 1995) emphasize integration challenges posed by acquiring target firms in distant cultures. This view predicts a negative association between cultural distance and acquisition performance. In contrast, a positive view associates cultural distance with benefits of exposure and access to diverse routines and repertoires embedded in unique cultures that were not previously available to the acquirer. Several authors (e.g., Morosini et al., 1998) argue, therefore, that because of learning opportunities, and access to routines specialized to a local context, cultural distance between an acquirer and its target should be positively associated with post-acquisition performance.

Although the negative and positive views of cultural distance are both dominant perspectives, empirical support for either view is surprisingly weak. Several studies do not support either a positive or a negative effect (e.g., Barkema, Bell, & Pennings, 1996; Markides & Ittner, 1994), and a recent meta-analysis of studies found that the mean effect size of the relationship approaches zero (Stahl & Voigt, 2008). Moreover, studies tend to use these explanations in isolation, and hardly ever examine both viewpoints simultaneously. As a result, current research is not able to unite these viewpoints of cultural distance. The current study builds on this prior research, with the intention of providing insight into the seemingly contradictory effects of the role of cultural distance in international acquisitions. Our theorizing holds that the effects of cultural distance on acquisition performance are not direct, and that one might reasonably expect the positive and negative indirect effects of cultural distance to negate each other in the aggregate.

In order to better understand the relationship between cultural distance and acquisition performance we believe it is important to better specify the role of integration capabilities, which refer to organizational practices specific to managing the post-acquisition integration process (Zollo & Singh, 2004). Both negative and positive viewpoints explicitly or implicitly stress the role of integration capabilities. The negative view emphasizes the impeding effect of cultural distance on the development of integration capabilities. Although international acquirers may differ in their integration capabilities for a myriad of reasons (cf. Calori, Lubatkin, & Very, 1994; Johanson & Vahlne, 1977; Markides & Ittner, 1994), in general, cultural distance of a particular target is likely to place unique strains on acquirers and their integration capabilities. That is, the negative effect of cultural distance on acquisition performance are likely to be mediated by its impeding effects on integration capabilities.

On the other hand, making acquisitions in culturally distant countries is associated with an enriching effect on the application or use of existing integration capabilities. This enriching argument builds on the view of learning from enhanced cultural diversity adopted by Morosini and his colleagues (1998). But we offer an important
provision to this argument. As Ghoshal, (1987: 432) mentioned:

The mere existence of diversity, however, does not enhance learning. It only creates the potential for learning. To exploit this potential, the organization must consider learning as an explicit objective, and must create mechanisms and systems for such learning to take place.

Therefore, cultural distance is not simply linearly positively associated with acquisition performance. Rather, the positive association depends on mechanisms to realize learning and resource combinations. In the context of international acquisitions, we contend that integration capabilities are the mechanisms through which learning becomes possible. With integration capabilities in place, cultural distance becomes valuable because these capabilities can be used to tap into the diversity and local specialization from which international acquirers can learn. Cultural distance, therefore, can enrich acquisition performance by making integration capabilities more valuable.

Thus our aim with this research is to take logical steps toward clarifying the mixed findings about the effects of cultural distance on acquisition performance. The negative and positive effects of cultural distance are necessarily intertwined as determinants of acquisition performance. By considering integration capabilities, we posit that cultural distance may be best viewed as a double-edged sword for acquisition performance. Acquisition integration is never easy; and cultural differences between the partners are likely to impede the development of integration capabilities. That is, cultural distance negatively affects acquisition performance through its effects on integration capabilities. However, cultural distance can also enrich acquisition performance, owing to the heightened potential diversity between the partners, increasing the benefits in the use of existing or previously developed integration capabilities. Figure 1 depicts this conceptual model.

The contributions of this study lie in: (1) our theoretical clarification of how cultural distance simultaneously has both negative and positive indirect effects on international acquisition performance; and (2) our extension of the process view, by examining important integration capabilities in the context of international acquisitions. We first briefly discuss the literature on integration capabilities. Subsequently, building on these theoretical underpinnings, we further develop hypotheses about the impeding and enriching effects of cultural distance on international acquisition performance through its effects on the development and application of integration capabilities. We subsequently discuss the tests of these hypotheses with a sample of 118 international acquisitions.

**ACQUISITION INTEGRATION CAPABILITIES**

The disturbing conclusion that is frequently drawn from research on mergers and acquisitions in general is that these deals do not provide acquiring firms with real benefits. Collectively, reviews of finance and strategy research found that shareholder value of acquiring firms generally deteriorates following merger announcements and in subsequent years (Agrawal, Jaffe, & Mandelker, 1992; King, Dalton, Daily, & Covin, 2004). Consequently, many researchers in strategy have been fixated to better understand key factors that can explain acquisition performance. Early strategy research has emphasized contingencies that could explain variance in the success of newly combined firms, such as relatedness (Lubatkin, 1983), relative size (Bergh, 1995; Bruton, Oviatt, & White, 1994), and prior acquisition experience (Hayward, 2002). However, reviews and meta-analyses of this work indicate that such key contingencies do not explain much variance in acquisition performance, and that other important factors remain to be identified (Datta, Pinches, & Narayanan, 1992; King et al., 2004; Lubatkin, 1987).

One response to the lack of support for contingencies is an increasing emphasis on the role of integration capabilities. This research builds on Kitching's (1967) work, which conjured up an acquisition integration process where the “managers of change” are key to success. Mergers and acquisitions are considered major organizational
transformations that need to be carefully managed. More generally, this research stream argues that integration capabilities need to be in place during acquisition implementation to ensure that potential synergies are realized. What has become known as the “process view” of acquisition research has emphasized several integration capabilities (e.g., Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986). To make our task more tractable, we focus on three integration capabilities: understandability, communication, and key employee retention. We chose these three integration capabilities as they have been emphasized in prior research on acquisition integration, are likely to be exacerbated by cultural differences between the acquirer and acquired unit, and should be particularly critical to performance of international acquisitions.

**Understandability**, here, refers to the extent to which employees from the combining firms can codify and learn the practices and routines underlying the potential resource advantages during the integration process (cf. Zander & Kogut, 1995; Zollo & Singh, 2004). While acquisitions form an important mechanism to access new resources and capabilities, the possession of these capabilities does not guarantee that the acquirer can exploit them (Marcus & Nichols, 1999). Transforming resources and capabilities into valuable ends requires that they be well understood. Zander and Kogut (1995) found that codifiability and teachability are important dimensions of the extent to which capabilities can be understood. In line with this finding, we conceptualize understandability as the extent to which practices and routines underlying potential resource advantages can be codified by, and taught to, organization members during the integration process (cf. Zander & Kogut, 1995; Zollo & Singh, 2004). Understanding important knowledge eases its transfer and combination with the acquirer’s larger pool of knowledge (Contractor, 2000). Relatedly, Zollo and Singh (2004) find that acquisition performance is positively related to the extent to which an acquirer has codified knowledge about an acquired unit.

**Communication** refers to the extent to which organization members from the acquirer and the acquired unit correspond through various media across former firm boundaries during acquisition integration (e.g., Larsson & Finkelstein, 1999; Ranft & Lord, 2002). Many authors have highlighted the role of communication through rich media during acquisition integration, and its effect on acquisition success (Bastien, 1987; Bresman, Birkinshaw, & Nobel, 1999; Kitching, 1967; Ranft & Lord, 2002; Schweiger & DeNisi, 1991). Post-acquisition integration can be viewed as the amalgamation of resources and capabilities rooted in two distinct workforces. Only when the two workforces develop rich communication channels across former firm boundaries can resource synergies be explored and exploited. Communication is important, even when knowledge is relatively understandable such as in the form of codified knowledge, because the acquisition context itself is often characterized by intense volatility (Ranft & Lord, 2002).

In addition, communication influences acquisition performance because it allows for the development of trust and commitment in the newly combined firm. For example, building on psychology research, Schweiger and DeNisi (1991) show how communication can reduce negative employee-level attitudes about the acquisition and increase firm-level success, both in the short term and in the longer term. Communication provides employees with necessary information to justify inescapable changes following the acquisition. Moreover, communication influences perceived fairness of the acquisition integration process because it provides employees with the opportunity to voice their viewpoints on the acquisition and associated changes to their work situations (Ellis, Reus, & Lamont, 2009).

The third integration capability, **key employee retention**, refers to the extent to which the acquirer, during the integration process, retains organization members from the acquired unit who are crucial to potential resource advantages (e.g., Ranft & Lord, 2002). Several qualitative studies have emphasized the importance of retaining top management to secure post-acquisition stability and successful acquisition integration (Jemison & Sitkin, 1986; Kitching, 1967). Empirical studies have also found support for this positive effect on acquisition performance (Bergh, 2001; Cannella & Hambrick, 1993), and the importance of retention for the transfer of critical knowledge-based resources (Ranft & Lord, 2002).

**THE TWO EDGES OF CULTURAL DISTANCE**

During the integration of foreign acquired units, management has an added complexity in the form of cultural distance. Hofstede (2001) defined culture as “the collective programming of the mind which distinguishes the members of one category of people from another.” While cultures are not coerced upon people, the term “collective
programming” connotes a process through which a group of people are conditioned by the same language, history, religion, education, and life experiences to share norms and values. People of different cultures will encounter similar problems but view them from different angles. Consequently, people from different countries differ from each other based on the collective programming that occurs in each country. Clearly within-country differences exist (Lenartowicz & Roth, 1999), but studies on national cultures, documented by, for example, Hofstede (2001) and the GLOBE project (House, Hanges, Javidan, Dorfman, & Gupta, 2004), indicate that between-country differences are significant, and influence the manner in which people act and interact with each other.

One Edge of the Sword: Cultural Distance as Source of Impediment
The unique characteristics of cultures complicate building and exploiting resources in distant cultures (Luo, 2002). We argue that this complication originates from cultural distance as a source of impediment to the development of integration capabilities. Cultural distance impedes understandability because multinational companies are more likely to lack insight of the local culture and business practices in culturally distant markets from which the local knowledge originates (e.g., Luo, 2002; Zaheer, 1995). Understandability of culturally disparate knowledge is particularly complicated because it is established through path dependencies rooted in a social context (Kogut & Zander, 1992). The unfamiliarity of the cultures in which knowledge is embedded complicates understanding of its functional attributes and benefits. This context also makes it more difficult to explain or teach how the knowledge can be used. In support of this argument, Simonin (1999) found that cultural distance increases the ambiguity that strategic alliance partners experience about the knowledge they wish to transfer. Understanding knowledge throughout an organization is facilitated, and perhaps even fostered, by a shared set of values and norms and a common approach to business because these facilitate identification and interpretation of knowledge (Dhanaraj, Lyles, Steensma, & Tihanyi, 2004). During the integration of distant acquired units, however, such shared business norms and values are less likely to exist and more difficult to develop.

In addition, cultural distance affects the extent to which acquisition partners communicate during acquisition integration. Several studies report that national culture has an important influence on how people interact with others. For example, Hofstede (2001) explained that in cultures that are characterized by large power distance, centralization of communication is popular, whereas in small power distance cultures decentralization is popular. Research on cross-cultural communication found that mothers from collectivistic cultures tend to encourage listening and empathy in their children, whereas mothers from individualistic cultures tend to teach self-expression (Singelis & Brown, 1995). These differences are likely to lead to very distinct communication styles and expectations from communication. Consequently, cultural distance makes it more difficult for workforces to come together, interact, and share ideas, and, as a result, impedes communication. Even when language differences are not present, or are overcome through training and education, organization members are likely to prefer, and have greater opportunities for, communicating with other members from similar cultures rather than with members from distant cultures (Lane, Greenberg, & Berdrow, 2004). Accordingly, cultural distance, through its impeding effect on communication, negatively affects international acquisition performance.

Cultural distance may also influence the extent to which acquirers can retain key employees. Cultural differences are likely to lead to more polarized “us versus them” viewpoints between different cultural groups (Huntington, 1993). Similarly, cultural distance is likely to restrain the extent to which organization members develop strong relationships (Luo, 2001). This becomes particularly important in an international acquisition context where people from different cultures have to work together closely. The differences in national cultures between merging groups can lead to considerable clashes about what is considered appropriate behavior, increasing the likelihood of conflict and mistrust among acquisition partners (Cartwright & Cooper, 1992; Datta & Puia, 1995). Because of the potential for elevated “us versus them” perceptions, acquired employees may perceive a particular threat to their status in the newly combined firm (Krug & Hegarty, 1997). Moreover, acquired employees will be less willing to adjust to, or accept practices of, acquirers that show very different values and norms. Consequently, during culturally distant acquisition integration, key acquired employees may be less motivated to work for the new foreign parent.
In sum, we expect that cultural distance will impede integration capabilities, and that a negative effect of cultural distance on performance significantly drops when integration capabilities (the mediators) are included in the equation.

**Hypothesis 1:** Cultural distance is negatively related to international acquisition performance through the mediating effects of (a) understandability, (b) communication between acquisition partners, and (c) key employee retention.

**The Other Edge of the Sword: Cultural Distance as Source of Enrichment**

An alternative view of cultural distance emphasizes its potential for enriching newly combining firms with unique capabilities. Making acquisitions in distant cultures provides firms with the potential to learn from unique routines and repertoires rooted in distinct national cultures (Barney, 1988; Ghoshal, 1987; Morosini et al., 1998). Others have noted that, in culturally diverse organizations, managers are likely to consider more viewpoints, options, or solutions to critical business problems, and therefore can enhance their comprehensiveness in decision-making (Gomez-Mejia & Palich, 1997). Moreover, this increased diversity associated with cultural distance can lead to new and more unique ways of doing business, and to greater exploration of new resources and capabilities. In a context of domestic firms, Cox (1991) argued that cultural heterogeneity in companies encourages creativity and innovative behaviors among organization members, and more successful marketing to different customer types. Similarly, cultural differences may break rigidities in acquiring firms, and help them to develop new and richer knowledge resources (Barkema & Vermeulen, 1998).

Cultural distance can therefore provide more learning opportunities, but this enhanced “combination potential” (Larsson & Finkelstein, 1999) does not automatically translate into synergistic benefits. Rather, we argue that the enriching effects of cultural distance occur by making integration capabilities more valuable. When cultural distance is small, integration capabilities can still reap benefits from realizing synergies, but the association between integration capabilities and acquisition performance will strengthen with greater cultural distance because there is more combination potential to be realized. Learning from increased cultural diversity requires creating mechanisms and systems for learning to take place (Ghoshal, 1987). In culturally distant acquisitions, integration capabilities can allow combining firms to learn more from cultural differences and reap more benefits from cultural diversity or heterogeneity. Different viewpoints, routines and practices rooted in distinct cultures can be identified, and incorporated in plans to realize synergies.

Hypothesis 1 emphasized the role of cultural distance as antecedent of integration capabilities, but it is important to note that other factors influence these integration capabilities as well (Calori et al., 1994; Nahavandi & Malekzadeh, 1988). Integration capabilities of the type germane to our theorizing may be developed from an array of experiences such as those from prior acquisitions, international alliance partners, other modes of internationalization, and prior competitive experiences in the country of the target. Therefore, acquirers facing the same level of cultural distance in a target may possess different levels of integration capabilities for varied reasons. For example, some acquirers, more than others, will be able to develop understandability regardless of the cultural distance associated with the acquisitions. Firms with considerable acquisition experience may have more experience with managing unique characteristics of international acquisitions (Markides & Ittner, 1994), and be better able to codify and learn the practices and routines underlying the potential resource advantages during the integration process (cf. Zollo & Singh, 2004). Understandability can be beneficial in culturally nearby acquisitions. However, the elevated combination potential associated with cultural distance (Larsson & Finkelstein, 1999) means that when employees from combining firms can codify and learn the practices and routines underlying the potential resource advantages associated with culturally distant acquisitions the elevated potential can translate into elevated synergetic benefits. Therefore, understandability in combination with cultural distance can enrich newly combining firms with routines and practices from distinct cultures more than those acquisitions that are not characterized by cultural distance.

Similarly, acquirers differ in their ability to foster communication among organization members across former firm boundaries regardless of the cultural distance (Bresman et al., 1999). While communication is important in culturally nearby acquisitions, the benefits increase for culturally distant acquisitions. Through communication...
organization members can convey critical information about the capabilities rooted in distinct cultures, and provide, or ask for, clarification and explanation about these capabilities. Moreover, communication functions as an important driver of trust between groups (Citera & Rentsch, 1999), and therefore can function as an important source of “common glue” or shared identity that is critical for the transfer of uniquely held capabilities during post-acquisition integration (Morosini, 2005). When these capabilities are rooted in distant cultures, rich communication allows for greater cross-cultural learning, and the enhanced potential can translate into enhanced synergetic benefits.

Moreover, instrumental for learning across former firm boundaries are the key employees who hold valuable knowledge, or who are associated with the development, advancement, and functioning of valuable resources and capabilities of the acquired unit (Ranft & Lord, 2002). Key employees are also critical for bringing in more diverse viewpoints in decision-making processes, broadening the way firms can develop products and services, and approaching different customer groups (Gomez-Mejia & Palich, 1997). Accordingly, when acquirers can sustain key employee retention, increased combination potential associated with cultural distance can translate into realized synergies. With greater cultural distance retained key employees will have greater opportunities to realize learning and combine more diverse viewpoints. Cultural distance, then, enhances the effect of key employee retention on acquisition performance.

In sum, cultural distance enriches the role of integration capabilities in acquisition performance.

Hypothesis 2: Cultural distance moderates the relationships between (a) understandability, (b) communication, and (c) key employee retention, and acquisition performance such that with larger cultural distance the relationships become stronger.

METHODS
We identified international acquisitions through the Mergers and Acquisitions Database of the Securities Data Corporation. This study examined international acquisitions that were completed during the 3-year period from 1998 through 2000 because this period forms the peak of the last merger wave in the 20th century, which saw a particular rise in international acquisition activity. The sample included those deals in which the acquirer bought a 100% equity stake in the acquired company. All acquisitions made by US firms in foreign countries formed the target population of this study because throughout the 1990s the US ranked among the countries with the highest international acquisition activity (UNCTAD, 2000). Moreover, by holding the buyers’ country constant we were able to control for possible home-country effects, avoided the need for questionnaire translations, and were able to collect comparable archival information about acquiring firms. The time frame was selected because it was characterized by intense international acquisition activity, it restrained the occurrence of retrospective bias by respondents, and it allowed for at least a 2-year time lag between completing the deal and administering the survey (in 2003). In cases where acquirers made more than one acquisition in the 3-year period, only the most recent acquisition was included in the analyses. The total population consisted of 623 US acquirers after deleting all companies that, following the acquisition, went private, were acquired themselves, went bankrupt, did not have sufficient information about the acquisition, or divested the acquired firm. Moreover, since our model concerns relationships between workforces, all acquisitions were removed that were purely assets driven. An additional 119 firms were removed because the executives indicated that their firm had a “no” policy for research participation or were otherwise incapable of participation.

To test the hypotheses, archival data on cultural differences and firm characteristics were complemented by primary data collected through a survey. This survey was completed by high-level executives from the acquirers closely involved in the formulation and implementation of the acquisitions. While the questionnaire relied heavily on prior research, pre-tests were conducted with five colleagues involved in mergers and acquisitions research, and through in-depth interviews with eight executives with substantial international acquisition experience. After some modifications, top executives from our population of acquirers were contacted by phone or e-mail to inquire about their willingness to participate in the project.

The response rate among executives of the MNEs was 24% (121 respondents). Because of missing data from two respondents and because one respondent showed extreme responding, the total sample consisted of data on 118 acquisitions. Of the respondents, 44 were presidents, chief executive
officers, chief financial officers, chief technology officers, or chief administration officers, 47 were (senior or executive) vice presidents, controllers or corporate secretaries, 28 were directors, assistant treasurers or senior and general managers, and 2 did not reveal their positions. The sample consists of 32 acquisitions in Canada, 66 in Europe, 10 in Asia, 1 in Africa, 6 in Australia, and 8 in Mexico and South America. The 26 countries in which the US acquirers of the sample made acquisitions mirror the acquisition activity of the full population of acquirers, although Canada is slightly over-represented (26% vs 16%).

Preliminary analysis of the data indicated that respondents and non-respondents did not differ much in terms of the acquired firm’s countries. Moreover, acquisitions by respondents had a transaction value of $251 million and acquisitions by non-respondents had an average value of $218 million, which is not statistically different ($t = 0.406, p = 0.685). Further, since late respondents can be assumed to be similar to non-respondents (Schwab, 1999), no significant $t$-test differences, between early and late respondents, for all variables indicated that non-response bias did not threaten the validity of the findings. In addition, while retrospective bias can influence survey data (March & Sutton, 1997), we assume that the recent acquisition event, as a major organizational (and personal) change for key respondents, functioned as an important trigger for recollection, and would probably limit the possibility of retrospective bias.

Measurement of Variables

**International acquisition performance.** Considering that the size of a number of acquisitions may be too small to visibly affect overall performance of the acquiring firms, accounting indicators available from secondary sources were inappropriate to measure acquisition performance. Key informants from acquiring firms are better able to assess the performance of acquisitions (e.g., Capron, 1999; Datta, 1991). Four performance appraisal items were used to elicit responses: profitability, market share, sales volume, and new product development. The weight of each performance measure was determined by asking the respondents to rate its importance. In addition, to capture success factors that might not have been captured in the previous subjective measure, the survey included one item to measure “overall acquisition success” (response choices ranged from 1, not successful, to 5, very successful). This item correlated strongly with the first subjective measure ($r = 0.78$), and the two measures loaded on a single factor explaining $89\%$ of the variance in the measures. We used the factor scores of the two performance measures to determine acquisition performance.

To assess the potential for common method bias that arises from using the survey instrument for both integration capabilities and acquisition performance, for a subsample of acquisitions that were publicly announced in the *Wall Street Journal* ($n = 34$), performance was measured by estimating changes in shareholder value following acquisition announcement through the use of event study methodology (e.g., Chatterjee, Lubatkin, Schweiger, & Weber, 1992). Cumulative abnormal returns of the international acquisition were determined using the formula

$$\text{CAR}_{it} = \text{R}_{it} - (\alpha_i + \beta_i R_{m,t}) \quad (1)$$

where $\text{CAR}_{it}$ is cumulative abnormal returns; $\text{R}_{it}$ is the cumulative return on stock $i$ for the day of the transaction and the day before the transaction (to include leakage of information prior to the acquisition); $R_{m,t}$ is the return on the market portfolio for day $t$ and $\alpha_i$ and $\beta_i$ are the estimates from an ordinary least-squares market model estimated for stock $i$, using 200 daily return observations from the 240th day to the 40th day prior to acquisition announcement. These market return data were gathered from the Center for Research in Securities Pricing. The correlation between the CAR and the subjective measure was positive ($r = 0.23$). Furthermore, after controlling for social desirability bias (see below), the correlation was significant ($r = 0.35$). The subjective measure of international acquisition performance was considered suitable for analyses.

**Cultural distance.** Measurement of cultural distance was done through an adaptation of Kogut & Singh’s (1988) cultural distance index. Rather than using Hofstede’s (2001) dimensions and country culture scores, we used more current data from the GLOBE project (House et al., 2004). Whereas culture is deeply rooted in the values and norms of people within a country, and therefore will not change easily, most of Hofstede’s data come from the 1970s and represent a single company. In contrast, the GLOBE project was done in the 1990s, and contains a larger number of companies. The project also identified a large number of cultural dimensions (nine in total). The GLOBE project asked...
respondents in 61 societies to gauge practices that assessed cultural qualities “as they are,” and values that assessed cultural qualities “as they should be.” Since as-is differences are likely to surface more readily than as-should-be differences, we used the practices scores to assess the degree of cultural distance. Thus the formula to measure cultural distance is

\[ CD_j = \sum_{i=1}^{9} \frac{(I_{ij} - I_{iu})^2}{9} / V_i \]  

(2)

where \( I_{ij} \) is the index of the \( i \)th cultural practices dimension and \( j \)th country, \( I_{iu} \) is the index of the \( i \)th cultural practices dimension of the US, \( V_i \) is the variance of index of the \( i \)th cultural practices dimension, and \( CD_j \) is the cultural distance of the \( j \)th country from the US.

For the countries that are represented in our study, this measure correlates highly with Kogut & Singh’s (1988) original measure (\( r = 0.74, p < 0.01 \)). To provide a further indication of the validity of this measure we included one item in the questionnaire that asked the executives to determine the cultural differences between the target country and the US. The correlation of the subjective measure with the GLOBE measure (\( r = 0.33; p < 0.01 \)) was stronger than with the Kogut and Singh measure (\( r = 0.21; p < 0.05 \)).

**Understandability.** Zander and Kotug (1995) explained that two dimensions, “codifiability” and “teachability,” best assess the degree to which knowledge can be understood. While Zander and Kotug (1995) emphasize these dimensions as characteristics of knowledge, they also reflect the ability of knowledge senders to explain the knowledge, and knowledge recipients to understand the knowledge. We included four items in the questionnaire addressing codifiability and teachability of the knowledge (local market knowledge, managerial capabilities, R&D capabilities, product and process design expertise, and distribution expertise) that was most important to transfer from and to the acquired firm. The items addressed whether organization members from the acquirer and the acquired firm perceived that

(1) extensive documentation about the capability was easy to obtain; and
(2) training personnel to contribute to the capability was simple;

(3) a useful manual describing the capability could be written; and
(4) the capability could be learned from observation.

The five-point Likert scales for these items ranged from 1 (strongly disagree) to 5 (strongly agree). Cronbach’s alpha was 0.67, indicating moderate internal consistency. Deletion of any one item did not increase this value. All four items loaded on a single factor (eigenvalue=2.02) that explained 50% of the variance.

**Commmunication.** Building on Daft and Lengel’s (1986) theory of media richness, several authors have developed a measure to determine the extent to which organization members engage through different network ties in communication with varying degrees of richness (e.g., Whitfield, Lamont, & Sambamurthy, 1996). We adjusted this measure to comprise six items that asked the respondent to rate the extent to which organization members communicated across former firm boundaries through media such as written memos, reports, e-mail, phone conversations, meetings, and social events. All items used a five-point Likert-type scale ranging from 1 (hardly ever) to 5 (very frequently). The extent to which combining firms engaged in communication was determined by using the formula

\[ Ca = \sum_{t=1}^{6} \frac{C_t W_t}{6} \]  

(3)

where \( C_t \) is the extent to which employees from both firms interact through medium \( t \), \( W_t \) is the weight assigned to medium \( t \), and \( Ca \) is the extent to which the combining firms engage in rich communication.

**Key employee retention.** Key employee retention was assessed in the area of top management and middle management, as well as employees in the areas of research and development, manufacturing and operations, marketing, sales and distribution, and finance, legal and other staff. We first asked respondents the extent to which employees in these six categories were retained. Cronbach’s alpha was 0.78, indicating that there was consistency in retention across the different categories. In order to determine the retention of key employees, we then assessed the importance of retaining employees from each category. Accordingly, the following formula was
used to determine an acquisition’s key employee retention:

$$\text{KER}_g = \sum_{g=1}^{6} R_g W_g$$

where $R_g$ is the percentage of employees of group $g$ who are retained after the acquisition, $W_g$ is the importance of retaining employees from type $g$ (e.g., top management team members, key employees in marketing), and $\text{KER}_g$ is the key employee retention of the $g$th acquisition.

**Control variables.** A potential bias of self-report data is the tendency of respondents to present themselves in a socially desirable manner (Schwab, 1999). While questionnaire studies are dominant in the field of international business, potential social desirability bias of respondents is scarcely mentioned, let alone measured. In other academic areas where self-report measures are frequently used, such as psychology, research on social desirability bias is extensive. This research stream has produced a number of scales to measure social desirability of respondents (e.g., Paulhus, 1991). Based on this research we included two items aimed to gauge a key informant’s self-deception in which a statement was made that was socially desirable but practically impossible (“All acquired employees were positive about the acquisition announcement”), and a key informant’s other-deception by asking respondents about the extent to which they engage in desirable but statistically infrequent behavior (“Management of the acquiring and acquired firms never disagree”). The items have a five-point Likert scale (1=strongly disagree; 5=strongly agree). Social desirability bias was examined by assessing the correlation between the subjective and objective performance measures. Considering that the relationship between the two measures became much stronger, and became significant, after controlling for social desirability (from $r=0.23$ to $r=0.35$), we can infer that this bias may influence the results, and should be controlled.

Several other variables could influence the hypothesized relationships, and therefore were included in the analysis. Five characteristics of the acquirer were included as control variables. First, to control for *industry* differences between acquirers, a dummy variable was used with a value of 1 for service industries and 0 for manufacturing industries. Second, the *degree of internationalization* of the acquirer prior to the acquisition was included, since this can affect the extent to which firms can deal with cultural differences in subsequent expansions (Johanson & Vahlne, 1977). Sullivan (1994) compared nine operationalizations of the degree of internationalization. We used the percentage of foreign sales of total sales, since this was one of the variables that loaded most highly on the factor “degree of internationalization” in Sullivan’s study. Third, acquirers that have host country experience might be better able to understand local idiosyncrasies. Therefore we estimated *prior country experience* of the acquirer with a dummy variable that had a value of 1 for those acquirers that had sales in the host country prior to the acquisition, and a value of 0 for acquirers that did not have sales in the host country prior to the acquisition. Fourth, building on learning theories, researchers contend that experienced acquirers know better which targets to select, and understand better the complexities of acquisition implementation. Consistent with previous research, the amount of *prior acquisition experience* was measured by the total number of acquisitions with a transaction value greater than $1 million in the 4-year period prior to the focal acquisition (e.g., Bruton et al., 1994). Fifth, past firm performance may be an indicator of current acquisition performance. While previous research on the influence of past performance has not provided clear evidence (Ramaswamy, 1997), we controlled for *prior acquirer performance* with a measure of the 2-year industry-adjusted average return on assets prior to the acquisition.

In addition, we included four acquisition characteristics as control variables. First, the business relatedness hypothesis contends that synergistic benefits should be enhanced in related acquisitions because many capabilities may be industry-specific and require industry know-how. The abundant number of empirical tests of the business relatedness hypothesis, however, shows no clear support (King et al., 2004). To determine whether *relatedness* has an effect on international acquisition performance, this variable was included using Haleblian and Finkelstein’s (1999) operationalization. Second, some authors have argued that relative size (i.e., the size of the target firm compared with the size of the acquiring firm) influences acquisition success. To control for potential effects, *relative size* measured through a single questionnaire item (Capron, Dussauge, & Mitchell, 1998) was included in the analysis. Third, prior research has emphasized *autonomy provision* to the acquired firm, which
refers to the extent to which the acquired firm retains control over key decisions following the acquisition (e.g., Haspeslagh & Jemison, 1991). Slangen (2006) showed that when acquirers intend to provide autonomy to the acquired unit, cultural distance relates positively with international acquisition performance. Accordingly, autonomy provision was assessed through a survey item that asked the extent to which the acquired firm, rather than the parent firm, made decisions about setting key performance goals and competitive strategies. Finally, economic, financial, and political conditions are likely to vary year by year. This was particularly true for the end of our sample period. For example, the year 2000 saw the climax of the dot-com bubble, major industry consolidations in telecommunications, and a new president in the US. Moreover, cross-border acquisition activity rose steadily over the years, with dramatic increases in 2000 (Hansen, 2001). Therefore, in order to control for time effects we included a dummy variable distinguishing acquisitions announced earlier (1998, 1999 coded 0) and later (2000 coded 1) in our time period.

RESULTS

Tests of Hypotheses
Table 1 presents the summary statistics of all variables and their correlations. Considering that we have both mediating (Hypothesis 1) and moderating tests (Hypothesis 2), we use a combination of multiple mediation analysis, and moderated regression analysis (cf. Poppo, Zhou, & Sungmin, 2008). To facilitate interpretation of the results, variables were centered around their means (Aiken & West, 1991).

Hypothesis 1 suggested that understandability, communication, and key employee retention serve as mediators between cultural distance and international acquisition performance. Simple mediation of a mediator is often tested through the causal steps approach recommended by Baron and Kenny (1986), and the Sobel test to determine whether a mediating effect is significant (MacKinnon, Lockwood, Hoffman, West, & Sheets, 2002; Sobel, 1982). A disadvantage of testing the simple mediation of each mediator is that it does not determine the overall effect of all mediators, and that it does not allow for the examination of a specific mediator, controlling for the presence of the other mediators. In response to these weaknesses, Preacher and Hayes (2008) have written an SPSS macro for

<table>
<thead>
<tr>
<th>Table 1: Means, standard deviations, and correlations</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition performance</td>
<td>0.90</td>
<td>1.00</td>
<td>0.185</td>
<td>0.197</td>
<td>0.163</td>
<td>0.056</td>
<td>0.006</td>
<td>0.076</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
</tr>
<tr>
<td>Cultural distance</td>
<td>0.81</td>
<td>0.91</td>
<td>0.183</td>
<td>0.163</td>
<td>0.050</td>
<td>0.006</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
</tr>
<tr>
<td>Understandability</td>
<td>3.25</td>
<td>0.50</td>
<td>0.050</td>
<td>0.049</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>0.27</td>
<td>0.50</td>
<td>0.050</td>
<td>0.049</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Key employee retention</td>
<td>0.27</td>
<td>0.50</td>
<td>0.050</td>
<td>0.049</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
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<tr>
<td>Social desirability</td>
<td>2.87</td>
<td>0.82</td>
<td>0.050</td>
<td>0.049</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
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<tr>
<td>Industry dummy</td>
<td>0.36</td>
<td>0.48</td>
<td>0.050</td>
<td>0.049</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Degree of internationalization</td>
<td>0.24</td>
<td>0.25</td>
<td>0.050</td>
<td>0.049</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
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</tr>
<tr>
<td>Prior country experience</td>
<td>0.57</td>
<td>0.50</td>
<td>0.050</td>
<td>0.049</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior acquisition experience</td>
<td>4.50</td>
<td>0.50</td>
<td>0.050</td>
<td>0.049</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior acquirer performance</td>
<td>0.24</td>
<td>0.50</td>
<td>0.050</td>
<td>0.049</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
<td></td>
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</tr>
<tr>
<td>Relatedness</td>
<td>7.64</td>
<td>0.02</td>
<td>0.050</td>
<td>0.049</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relative size</td>
<td>5.19</td>
<td>0.22</td>
<td>0.050</td>
<td>0.049</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Autonomy provision</td>
<td>1.91</td>
<td>0.50</td>
<td>0.050</td>
<td>0.049</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year dummy (2000)</td>
<td>0.42</td>
<td>0.50</td>
<td>0.050</td>
<td>0.049</td>
<td>0.076</td>
<td>0.056</td>
<td>0.049</td>
<td>0.073</td>
<td>0.011</td>
<td>0.049</td>
<td>0.076</td>
<td>0.011</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Correlations greater than |0.18| are significant at p<0.05, and greater than |0.24| are significant at p<0.01.
an extension of the Sobel test with bootstrapping that allows for the examination of multiple mediation. Bootstrapping is a nonparametric re-sampling procedure that allows for non-normal sample distributions. Preacher and Hayes (2004, 2008) recommend bootstrapping, particularly when sample sizes are low, because assumptions of normality can often not be met for indirect effects. Bootstrap results for indirect effects are provided with confidence intervals that indicate whether an indirect effect is significant if zero falls outside the range of the confidence intervals.

Table 2 presents the regression results of acquisition performance regressed on cultural distance, understandability, communication, key employee retention, and the control variables. As Model 2 in Table 2 shows, after including all control variables, cultural distance is negatively associated with international acquisition performance (Model 2: $\beta=-0.175$, $p<0.05$), explaining significant additional variance compared with the base model (hierarchical $F=2.941$, $p<0.05$), and meeting the causal steps condition that the mediators be associated with the dependent variable. Moreover, Model 3 in Table 2 shows that the absolute size of cultural distance as an explanatory variable for international acquisition performance becomes insignificant after inclusion of the mediators (Model 3: $\beta=-0.062$, $p>0.10$), meeting the causal steps condition that the association between independent and dependent variables weakens after including the mediators.

Table 3 reports the results using Preacher and Hayes' (2008) multiple mediation SPSS macro. While these results provide information about the association between the mediators and the dependent variables consistent with the results reported in Table 2, they also provide information about the association between the independent variable and each mediator, controlling for the other mediators. These results confirm an association between cultural distance and understandability

<table>
<thead>
<tr>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.032 (0.097)</td>
<td>0.024 (0.096)</td>
<td>-0.024 (0.086)</td>
</tr>
<tr>
<td>Social desirability</td>
<td>0.182 (0.102)</td>
<td>0.183 (0.101)</td>
<td>-0.019 (0.099)</td>
</tr>
<tr>
<td>Industry dummy</td>
<td>-0.100 (0.105)</td>
<td>-0.112 (0.104)</td>
<td>-0.068 (0.095)</td>
</tr>
<tr>
<td>Degree of internationalization</td>
<td>-0.038 (0.105)</td>
<td>-0.032 (0.104)</td>
<td>0.008 (0.093)</td>
</tr>
<tr>
<td>Prior country experience</td>
<td>-0.147 (0.100)</td>
<td>-0.166 (0.099)</td>
<td>-0.121 (0.089)</td>
</tr>
<tr>
<td>Prior acquisition experience</td>
<td>0.187 (0.115)</td>
<td>0.186 (0.114)</td>
<td>0.186 (0.102)</td>
</tr>
<tr>
<td>Prior acquirer performance</td>
<td>0.035 (0.099)</td>
<td>0.061 (0.099)</td>
<td>-0.031 (0.091)</td>
</tr>
<tr>
<td>Relatedness</td>
<td>-0.116 (0.098)</td>
<td>-0.117 (0.097)</td>
<td>-0.105 (0.086)</td>
</tr>
<tr>
<td>Relative size</td>
<td>-0.116 (0.106)</td>
<td>-0.128 (0.105)</td>
<td>-0.009 (0.097)</td>
</tr>
<tr>
<td>Autonomy provision</td>
<td>0.205 (0.111)**</td>
<td>0.192 (0.110)**</td>
<td>0.071 (0.108)</td>
</tr>
<tr>
<td>Year dummy (2000)</td>
<td>0.128 (0.104)</td>
<td>0.126 (0.103)</td>
<td>0.004 (0.096)</td>
</tr>
<tr>
<td>Cultural distance</td>
<td>-0.175 (0.101)**</td>
<td>-0.062 (0.094)</td>
<td>0.059 (0.099)</td>
</tr>
<tr>
<td>Understandability</td>
<td>0.229 (0.090)**</td>
<td>0.250 (0.087)**</td>
<td>0.212 (0.107)**</td>
</tr>
<tr>
<td>Communication</td>
<td>0.411 (0.104)**</td>
<td>0.453 (0.101)**</td>
<td>0.146 (0.088)**</td>
</tr>
<tr>
<td>Key employee retention</td>
<td>0.216 (0.086)**</td>
<td>0.216 (0.086)**</td>
<td>-0.036 (0.109)</td>
</tr>
</tbody>
</table>

$R^2$ | 0.144 | 0.171 | 0.364 | 0.429 |
$F$ | 1.547** | 1.709* | 3.605** | 3.750** |
$\Delta R^2$ | 0.027 | 0.193 | 0.064 |
$\Delta F$ | 2.994* | 8.919** | 3.178* |

*Unstandardized coefficients are reported, with standard errors in brackets. The changes in $R^2$ in Models 2–4 are in comparison with the value of $R^2$ in the model to their left.

$^a$p $< 0.10; ^b$p $< 0.05; ^c$p $< 0.01.
(Table 3: $\beta = -0.183$, $p < 0.05$). The bootstrap results for understandability do not contain zero in the confidence interval ($\text{CI}_{95\%}: -0.117, -0.004$), providing support that the indirect effect is significantly different from zero. Thus, the results provide support for Hypothesis 1a that cultural distance is negatively associated with acquisition performance through the mediating effect of understandability.

Hypothesis 1b predicted that communication will mediate the relationship between cultural distance and international acquisition performance. As reported in Table 3, the multiple mediation results show a significant estimate between cultural distance and communication ($\beta = -0.179$, $p < 0.05$), and confirms a significant indirect effect through communication ($\text{CI}_{95\%}: -0.093, -0.003$), consistent with Hypothesis 1b. Hypothesis 1c predicted that the relationship between cultural distance and international acquisition performance will also be mediated by key employee retention. Table 3 shows that this prediction does not hold after controlling for the effects of the other mediators. The estimate of key employee retention becomes insignificant (Table 4: $\beta = -0.082$, $p > 0.10$), and the confidence interval does contain zero ($\text{CI}_{95\%}: -0.133, 0.014$). Hypothesis 1c cannot be confirmed.

To examine the moderating effect of cultural distance on understandability (Hypothesis 2a), communication (Hypothesis 2b), and key employee retention (Hypothesis 2c), we entered the interaction terms into the hierarchical regression analysis. Model 4 in Table 2 shows these results. The interaction term for cultural distance and key employee retention was insignificant, rejecting Hypothesis 2c. The hierarchical regression analysis showed that the interaction terms of cultural distance with both understandability and communication are positive and significant (Model 4: respectively $\beta = 0.146$, $p < 0.05$ and $\beta = 0.216$, $p < 0.01$). The hierarchical $F$-test confirmed that Model 4 showed significantly stronger explanatory power than Model 3, excluding these interaction terms (hierarchical $F=3.178$, $p < 0.05$). The explanatory power also increased significantly when these two interaction terms were added separately. Thus, the results confirm the importance of the interaction terms in relation to international acquisition performance.

To get a clearer view of the nature of the interactions we also plotted these two interaction terms using the steps suggested by Aiken and West (1991), in which cultural distance is treated as a moderator variable affecting understandability on acquisition performance (Figure 2a), and communication on acquisition performance (Figure 2b).

**Table 3 Regression results for multiple mediation**

<table>
<thead>
<tr>
<th>Mediators to acquisition performance</th>
<th>Bootstrap results CI Lower/Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understandability</td>
<td>$-0.183 (0.106)^*$</td>
</tr>
<tr>
<td>Communication</td>
<td>$-0.179 (0.092)^*$</td>
</tr>
<tr>
<td>Key employee retention</td>
<td>$-0.082 (0.088)$</td>
</tr>
<tr>
<td>Total indirect effect</td>
<td></td>
</tr>
</tbody>
</table>

*Unstandardized coefficients are reported, with standard errors in brackets. Bootstrap results are provided for the lower and upper bounds of 95% confidence intervals. $^*p < 0.05; ^{**}p < 0.01.$
levels of understandability (Figure 3a) and for low vs high levels of communication (Figure 3b). While we did not hypothesize a direct effect of cultural distance on acquisition performance, these figures provide further information about a collective effect of cultural distance, and when it may be negatively and positively associated with acquisition performance. Simple slopes analyses indicate that cultural distance has a negative association with acquisition performance for low levels of understandability ($b=-0.232$, $p<0.10$), and communication ($b=-0.372$, $p<0.05$), while cultural distance has a positive association with acquisition performance when acquisition partners show high levels of understandability ($b=0.351$, $p<0.05$), and communication ($b=0.491$, $p<0.05$). The dotted lines in Figures 3a and 3b can be viewed as cases where there are only impeding effects from cultural distance due to low integration capabilities. In the context, performance suffers with greater cultural distance. The solid lines reflect situations where acquirers were able to develop integration capabilities. Then performance increases with more cultural distance between acquirers and targets.

Of the control variables, social desirability, prior acquisition experience, and autonomy provision were positively associated with acquisition performance. Further analyses indicated that social desirability was also positively associated with understandability and key employee retention. Moreover, prior acquirer performance positively affected communication between acquisition partners, while relative size and autonomy provision were negatively associated with communication. In contrast, autonomy provision was positively associated with key employee retention. The year dummies were examined separately because they resulted in multicollinearity when entered together. The results with year dummy for 2000 are presented in Table 2, and these regression models were repeated for 1998 and 1999, which replicated the results for the hypothesized relationships. However, acquisitions made in 1998 showed less communication, while acquisitions made in 2000 showed more communication and key employee retention.

**DISCUSSION**

Despite many anecdotal statements highlighting the relevance of cultural differences in international acquisitions, empirical evidence shows mixed support for its role. Against this background, our study set out to consolidate and reconcile the seemingly conflicting arguments about the role of cultural distance in international acquisitions. Although the impeding effects and enriching effects of cultural distance have been stressed in prior literature, they have commonly been treated separately. We argue that this prior treatment is incomplete, because the impeding and enriching effects are necessarily intertwined in explaining acquisition performance. Our results confirm a more interdependent perspective that views cultural distance as a mixed blessing, because while it may increase the potential for learning when integration capabilities are in place, it also impedes the development of these integration capabilities.

Our study informs international acquisition research by examining the effects of integration capabilities. Previous research commonly has tested
a direct relationship between cultural distance and acquisition performance (e.g., Datta & Puia, 1995; Morosini et al., 1998). In contrast, our findings indicate that the "process view" of acquisitions (e.g., Haspeslagh & Jemison, 1991; Pablo, 1994), which emphasizes the role of integration capabilities, is relevant in understanding international acquisition performance. The findings indicate that international acquisition performance is in large part a function of the development and application of understandability, communication, and key employee retention during acquisition integration.

Our theoretical framework suggests that there is no direct effect of cultural distance on acquisition performance. The results confirm that there is no simple answer to the question whether acquirers will face poor or strong performance in distant cultures. Our answer to this question is that the effect of cultural distance depends on developing understandability, and fostering rich communication. As such, our answer is a typical contingency answer. However, a complicating factor in the role of cultural distance is that it also makes it more difficult to develop the context that fosters these integration capabilities.

The framework further implies that the overall near-zero relationship between cultural distance and acquisition performance in large samples of acquisitions (Stahl & Voigt, 2008) arises because large enough samples are likely to show a large variance in integration capabilities among acquirers. While we observe a negative relationship between cultural distance and acquisition performance, this relationship becomes insignificant after considering integration capabilities. The positive effect that Morosini and his colleagues (1998) found in their sample of 52 international acquisitions may be caused by an over-representation of acquirers with high levels of integration capabilities. Indeed, in their field-based interviews they found that executives emphasized that a “strong effort was made to ensure a high level of communications between the two firms, with objectives and progress being communicated at all levels” (152). In larger samples, the variance of acquirers’ ability to develop and apply their integration capabilities will be greater, and since the effect of cultural distance is a function of integration capabilities, the true relationship will approach zero in samples that capture equal numbers of acquirers with low and high levels of integration capabilities.

Our framework also places recent findings in new light. Noting the difficulties that firms face in integrating culturally distant units, Slangen (2006) argues that a positive effect of cultural distance comes to fruition only when acquirers do not attempt to integrate acquired units too tightly. Slangen (2006) concludes that acquirers better keep acquired units in distant cultures to some degree autonomous. In a similar line of reasoning, Stahl and Voigt (2008) imply that more unrelated acquisitions may show less cross-cultural conflict because of the lower levels of operational integration generally expected from these acquisitions. However, while risks associated with cultural differences may be avoided when combining firms remain largely independent, our results suggest that such independence will probably also limit the cross-cultural learning that firms can achieve with acquisitions when they possess strong integration capabilities. The benefits of cultural distance are not likely to be realized simply by letting the acquired unit be only loosely integrated into the acquirer during acquisition implementation. Rather, our findings suggest an important role for strong integration capabilities.

While key employee retention had a strong positive effect on acquisition performance, the predicted effects of cultural distance on this variable were not supported. Cultural distance did not reduce key employee retention, nor did cultural distance significantly enhance the effect of key employee retention on acquisition performance. One possible reason for this finding is that acquisitions in general are such emotional events for acquired employees that any type of acquisition complicates key employee retention. Indeed, accounts of stress and distrust during implementation of domestic acquisitions are plentiful. Moreover, we explored retention among key employees of various functional categories. Future research may examine other characteristics of employees that are retained, such as variance in their people-related skills. It could be that the enriching effect of cultural distance on key employee retention is a matter of retained skill sets that we did not capture in our analysis.

**Limitations and Suggestions for Future Research**

The findings of this study should be viewed in light of several limitations of the research design. The model that is tested in this study is only a first representation of the theoretical model that we have introduced in the earlier sections of this
article. Our study provides initial support for a double-edged sword effect of cultural differences on acquisition performance, and begins to illustrate the importance of integration capabilities. However, future research can provide a fuller theoretical model.

The distribution of the sample we examined reflects that of the population of international acquisitions by US acquirers. While a sample of US acquirers made it possible to control for country characteristics, and provided a richer understanding of specific integration capabilities of these types of acquisitions, generalization of the results to international acquisitions by firms from other countries remains an empirical question for future research. Differences in findings between Morosini et al.'s (1998) study of mostly European acquirers and the current study may be rooted in sample differences. Therefore future research can examine whether European acquirers differ significantly from US acquirers regarding the extent to which acquirers are able to develop and apply integration capabilities. Work by Calori et al. (1994) would suggest that this is probable, and deserves further documentation.

The emerging markets also form a growing base for a rather new group of acquirers. The global financial crisis of 2008 seems not only to have influenced the speed with which Western MNEs need to restructure, it also provides a playground for MNEs from emerging markets who are aggressively targeting Western companies. A recent KPMG study reports that emerging-market acquirers, particularly from India, Russia, and South Korea, are increasingly looking for targets in the US, the UK, and Germany (Kawasaki & Nihen, 2008). Clearly, cultural differences play a role for these acquirers in acquisition integration processes. Whether or how these acquirers develop integration capabilities to bring about the enriching effects predicted by the model put forth in this article are important questions for future research.

Our sample is limited by constraints that may be relevant to most studies on cultural distance. While the cultural distance from the US to other countries may vary systematically, other characteristics of the US’s relations with these countries may vary systematically as well. The results of cultural distance found in our study may be partially driven by these unobserved dimensions of heterogeneity in the US’s relations with other countries. Some of these possible unobserved dimensions may be related to institutional differences in local legal and employment characteristics. For example, executives from our sample mentioned that “the tax planning and employment laws associated with acquiring foreign operations are also very complex,” and that it is important to “understand the labor issues within the specific market and how the government views industrial relations issues.” Another executive, more bluntly, mentioned that “the union environment and labor regulations (the most pro-union environment that I have ever been exposed to) alone would be reason not to do it again.” An important future research route, therefore, is to partial out other institutional differences from cultural differences (Kostova, 1999), and examine their independent effects on integration capabilities.

The study pursued responses from executives who were, prior to the acquisition, mostly employed at the acquiring firm. While this provided the opportunity to investigate the acquisition from the perspective of the parent firm, it limited the opportunity to assess integration capabilities as experienced by acquired employees. And, although we took great care in the execution of our survey, one can never know the extent to which typical survey response biases may or may not have affected our results. Future research can more closely examine the role of cultural distance in international acquisitions from the perspective of the acquiring and acquired firms’ employees (cf. Lee, Shenkar, & Li, 2008), using multiple data sources. Such a design could corroborate our findings and better address other factors that influence the extent to which acquirers are able to foster an atmosphere that facilitates understandability, communication, and key employee retention.

While the current study identified cultural distance as an important antecedent of integration capabilities, it is in understanding the other antecedents of integration capabilities that important strides are likely in future research, as it was this set of capabilities that appear to underlie the ability to reap gains from international acquisitions. Managers are likely to interpret the idiosyncratic challenges of uncertainty and equivocality that characterize their international acquisitions and will attempt to make investments to develop the necessary capabilities (Reus, Ranft, Lamont, & Adams, 2009). One important route for future research, therefore, is to examine how acquirers can develop the key capabilities to improve acquisition integration studied in this paper and overcome...
the impediments brought upon international acquirers by cultural distance. For example, understanding knowledge in distant cultures, and developing communication ties that span distant cultures, may require hiring acquisition managers who have considerable cultural intelligence, or investing in cross-cultural training for organization members (Early & Mosakowski, 2004). Alternatively, the multiculturalism of the acquirer (Nahavandi & Malekzadeh, 1988), which may be a learned product of past experience (Markides & Ittner, 1994) and level of internationalization (Johanson & Vahlne, 1977) may be important determinants of capabilities to integrate culturally distant firms effectively. Future research opportunities appear numerous.

Recent theorizing taking a cultural “friction” perspective (Shenkar, Luo, & Yeheskel, 2008) calls for a more in-depth examination of cultural encounters, focusing on actors that do not only differ in cultural heritage but also possess divergent resources and interests, and hold asymmetric power and hierarchical positions. While the friction perspective highlights aspects of conflict that impede cooperation among actors (Shenkar et al., 2008), the integration capabilities view put forth in this article stresses that divergent opinions and ways of doing business can also have enriching effects on cultural encounters. Closer examination of both impeding effects and enriching effects in cultural encounters seems warranted. To this end, a dimensional focus on similarities or differences between cultures may also be overly simplistic, without regard for nominal properties of host and home cultures (Shenkar, 2001). Future research can examine how acquirers from, or in, particular cultures develop integration capabilities, regardless of whether the host culture is similar or not.

In conclusion, although several issues warrant further investigation, the present study takes significant steps towards understanding the role of cultural distance in international acquisitions. Our findings suggest that cultural distance is a double-edged sword with costs and benefits. In a business environment that is increasingly global, this more comprehensive view of the role of culture is essential. Research on the role of cultural distance in international acquisitions will not only increase appreciation of its impact on international acquisitions, but can also enrich our overall understanding of the sources of sustained competitiveness of MNEs.

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