

How do reputation and international experience influence the choice of cross-border acquisitions?

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Abstract

We combine internationalization theories and the emerging literature on reputation to examine the acquisition decision of a longitudinal sample of European and US firms. We argue that both reputation and knowledge acquired through experience of cross-border acquisitions influence the decision to make new international acquisitions. Our results indicate an inverted U-shaped relationship between firm reputation and the likelihood of making cross-border acquisitions. We also find that international experiential knowledge is positively related to the likelihood of subsequent cross-border acquisitions, and that such experience moderates the relationship between reputation and the likelihood of additional cross-border acquisitions.

Keywords: acquisitions, cross-border expansion, reputation, international experiential knowledge

INTRODUCTION

The recent unprecedented level of international acquisitions has driven researchers from several academic fields to focus on this activity, generating extensive knowledge of the antecedents, outcomes and moderators of the acquisition-performance relationship (Haleblian et al., 2009; Bauer and Matzler, 2014). The international business literature has been at the forefront of this trend, as M&As are one of the favorite strategies used by multinational enterprises to expand internationally (Xie et al., 2017). Thus, in 2018, the value of cross-border M&As increased by 18% to USD 816 billion, whereas the global value of foreign direct investments (FDI) fell by 13% to USD 1.3 trillion (UNCTAD, 2019). Moreover, the share of cross-border M&As in the global volume of M&As has significantly increased over the last two decades to reach 46% in 2018 (Bloomberg, 2018).

Cross-border acquisitions (hereafter CBA) involve more risk and uncertainty than domestic ones (Buckley et al., 2016; Goerzen, Sapp, and Delios 2010; Reuer and Ragozzino, 2014), and the antecedents and outcomes of such strategic moves require particular attention (Collins et al., 2009). Despite the significant amount of CBA research, recent studies of international acquisitions have mostly investigated the influence of cross-border activities on acquirers' performance (Bertrand, 2009, Bertrand and Capron, 2014; Cheng and Yang, 2017). However, little is known about the antecedents of the decision to undertake such cross-border operations. In particular, it is not clear whether and how the firms' internal resources, and more specifically intangible resources, influence their decision to make CBA. Exceptions are the research conducted by Collins (2009) and Buckley et al. (2016), who show that knowledge generated by prior acquisitions facilitates subsequent cross-border M&As. In this research, we contend that two particular types of intangible resources, knowledge acquired through previous CBA and reputation—an intangible corporate asset that contributes to performance (Amit and

Schoemaker, 1993; Barney, 1991)—play an important role in the decision to expand internationally through CBA. This research therefore fills the gap identified by Pfarrer, Pollock and Rindova (2010), who argue that the influence of intangible resources on organizational strategies and performance is a poorly studied, little understood phenomenon.

This research aims to answer the following question: *how do reputation and international experiential knowledge influence MNE cross-border acquisition decision?* Building on internationalization theories and the growing strategic management literature on reputation, we develop and test a set of hypotheses. First, we hypothesize an inverted U-shaped relationship between firm reputation and the likelihood of CBA. Reputation facilitates the decision to acquire foreign firms up to a certain threshold, as reputation can be transferred abroad and reassures stakeholders (*reputational advantage effect*). However, after the threshold it constitutes an obstacle, as high-reputation firms avoid risky decisions that might damage that reputation (*reputation preservation effect*). Second, we hypothesize a positive relationship between CBA experience and the likelihood of additional CBAs. Indeed, such experience provides managers with the necessary knowledge and self-confidence to undertake further cross-border operations. Third, we hypothesize that CBA experience moderates the reputation-CBA decision: both the reputational advantage and reputation preservation effects are reinforced by CBA experience.

We test our three hypotheses on a unique dataset of 868 acquisitions completed between 2010 and 2015 by European and US multinationals. We compiled the data manually from four distinct data sources: (i) information about M&A deals, (ii) acquirers' reputation, (iii) acquirers' financial and operational information, and (iv) the national investment profile of both acquirers and targets. Our longitudinal data enabled us to consider firm specific unobserved heterogeneity, a crucial issue for such studies.

We contribute to the literature in two ways. First, we contribute to research examining how intangible resources shape strategic decisions. By providing evidence that acquirers' reputation and international experiential knowledge, and their interaction, influence subsequent CBA decisions, we answer recent calls for more detailed work on the impact of intangible assets on corporate strategies (Pfaffer et al., 2010). Moreover, our results provide a nuanced view of the role of reputation, highlighting its ambiguous influence on the propensity to undertake risky, costly cross-border operations. These results complement the recent findings of Haleblan et al. (2017) about the distinctive behavior of high-reputation firms. Second, we contribute to the international business literature by identifying firm-level drivers of international expansion through acquisition. The role of intangible assets has been central in internationalization theories, as they enable firms to overcome the liability of foreignness (Wu and Salomon, 2016, 2017; Zaheer, 1995). However, more research is needed to identify influential intangible resources, and to show how these resources interact to affect MNE acquisition decisions. Our research highlights the influence of two key internal resources: reputation and international experiential knowledge, on the internationalization decision.

The remainder of the paper is organized in four sections. The second section presents the influence of reputation and international experiential knowledge, and their interaction, on the decision to make cross-border acquisitions. We develop three research hypotheses in this section. The third section describes the statistical method, dataset, and variables used in our empirical study. The fourth section reports the results. The fifth section discusses the results and concludes the paper.

THEORETICAL FRAMEWORK AND HYPOTHESES

The determinants of MNE internationalization strategies is a long-standing research topic in international business and strategy (Griffith et al, 2008; White et al., 2016). The principal internationalization theories have repeatedly identified intangible resources as one crucial determinant. The Uppsala model focuses on the role of knowledge generated by experience and by integration in networks as key factors increasing commitment to foreign markets (Johanson and Vahlne, 1977; Johanson and Vahlne, 2009; Welch and Paavilainen-Mäntymäki, 2014). Knowledge is therefore necessary to trigger and favor internationalization. More generally, the eclectic paradigm emphasizes the role of specific assets, including intangible assets, as key determinants of foreign investments (Dunning, 1980, 2000). Indeed, MNEs leverage their intangible resources to compensate their liability of foreignness (Wu and Salomon, 2016, 2017; Zaheer, 1995).

Internationalization theories therefore emphasize the role of intangible resources/assets as factors influencing internationalization strategies. However, the literature relating intangible resources and internationalization decisions has thus far remained general and has not provided much empirical evidence, especially on the influence of intangible assets on international expansion through acquisitions. One reason is that intangible resources are difficult to observe and measure, because they are not included in company accounts (Delgado-Gomez et al., 2004). In this research, we focus on the two intangible resources identified by Hall (1992) as the main contributors to sustainable competitive advantage and that take longest to create—reputation and knowledge—and on their interaction. We explore how these resources influence the decision to expand internationally through acquisitions.

Reputation and cross-border acquisitions

Research on organizational reputation has boomed over the last twenty years (Rindova et al. 2005, Rindova et al., 2010; Pfarrer et al., 2010). Reputation has been defined as “stakeholders’ perceptions about an organization’s ability to create value relative to competitors” (Rindova et al. 2005, p. 1033) and is a valuable intangible asset contributing to firm performance (Barney, 1991, Ravasi et al., 2018; Rindova et al., 2005). Based on the literature on reputation, we propose reputation influences the decision to make CBAs through two opposing mechanisms: the *reputational advantage effect* and the *reputation preservation effect*. Indeed, reputation can help or hinder firms in different circumstances (Petkova et al., 2014; Zavyalova et al., 2016). As theorized by Petkova et al. (2014, p. 423) “reputation exerts dual pressures on a firm’s decision.” On one hand, reputable firms aspire to higher performance and may be more likely to search for new opportunities or make riskier strategic moves. In addition, as reputation is inferred from the firm’s past actions and performances (Fombrun and Shanley, 1990), a good reputation will increase managers’ confidence in their own ability to create value from strategic actions. On the other hand, reputable firms are more likely to make conservative decisions, and may therefore adopt risk reduction strategies to preserve their reputation. This is particularly true as reputable firms are closely scrutinized and the subject of greater stakeholder expectations (Petkova et al, 2014; Haleblian et al., 2017).

The ambiguous nature of reputation will have opposing effects on decisions regarding international expansion and acquisitions, especially in a context where acquisition returns are uncertain (Brouthers and Dikova, 2010). Indeed, CBA involve firms in different countries, regions, or continents, and thus generate uncertainty for decision-makers. Moreover, international operations increase information asymmetry and the risk of adverse selection

(Reuer and Ragozzino, 2014), and the opportunities and risks related to such operations are more difficult for investors to assess (Moeller and Schlingemann, 2005).

In such an uncertain context, reputation could facilitate CBA, as firms could leverage their *reputational advantage* to overcome the liability of foreignness and manage the post-acquisition integration process successfully. Reputation will also act as a quality signal to reassure investors of the company's ability to respond to market expectations (Hitt et al., 2001). This view of reputation fits the concept of specific assets developed in eclectic theory. According to Dunning (1980), a firm's propensity to produce using foreign direct investment depends, among others things, on its specific assets, that is, on assets its competitors do not have. These assets can be created by the firm, such as technology or organizational skills, but they can also be purchased from other firms. If the firm can transfer these assets abroad, it will have an advantage over local businesses (Dunning, 2001). Intangible assets are particularly valuable, because they are easy to transfer to foreign countries given that their development in foreign markets does not depreciate their value at home (Morck and Yeung, 1998) and is not subject to high additional costs (Delios and Beamish, 2001).

But the uncertainty associated with CBA could also encourage firms to adopt a *reputation preservation* strategy, that is, to limit their risk by favoring safer domestic acquisitions. Many empirical studies have investigated the performance outcomes of CBA, without reaching any consensus (Hassan et al., 2018). Most studies measure the value created by acquisitions by the cumulative abnormal returns around the announcement of the deal (Tao et al., 2017). They show that CBA performance depends on a number of factors related to the features of the acquirer (Ning et al., 2014; Chalencon et al., 2017) or of the deal (Moeller and Schlingemann 2005). Interestingly, Haleblan et al. (2017) show that stock markets react negatively to acquisitions and that this reaction is stronger for high-reputation firms. The performance

outcome of acquisitions, especially CBA, is thus far from being certain, and this can lead well-reputed firms to reduce their risk by preferring domestic acquisitions.

Based on these insights we argue the following. Firms with a higher reputation are more likely to make international acquisitions, as such a strategy enables them to exploit this strong asset abroad. However, above a certain level of reputation, they will be reluctant to make foreign acquisitions, as such operations are riskier, and failure could disappoint their stakeholders, including investors, and damage their reputation. Accordingly, we hypothesize:

H1. There is an inverted U-shaped relationship between firm reputation and the likelihood of cross-border acquisitions.

International experiential knowledge and cross-border acquisitions

Experiential knowledge, defined as the “learning acquired through the means of personal and professional experience of conducting international business in home and host countries” (Buckley et al., 2016, p. 676) has been central in explaining the internationalization process and the choice of entry mode (Eriksson et al., 1997). The Uppsala model of internationalization points to slow, gradual involvement in foreign markets as the result of the interaction between market knowledge and market commitment (Johanson and Vahlne, 1977; Johanson and Vahlne, 2009; Welch and Paavilainen-Mäntymäki, 2014). Firms overcome the perceived risks and costs of internationalization by gathering knowledge from their own operations or from collaborating with other firms (Buckley et al., 2016). Experience and business relationships therefore provide firms with an intangible resource – knowledge – that will enhance further internationalization. Knowledge generated by experience (*experiential knowledge*) thus becomes a driving force in

the internationalization process (Johanson and Vahlne, 1990) and constitutes an implicit specific asset for the internationalizing firm (Johanson and Vahlne, 2009).

In this research, we focus on specific knowledge acquired through experience of CBA, *international experiential knowledge*. Such knowledge increases the likelihood of subsequent acquisitions for several reasons. First, as shown by several articles drawing on organizational learning theory, knowledge and skills gained from prior acquisitions, especially international acquisitions, will help the firm to make additional international acquisitions (Haleblian et al., 2006). The authors also argue that experience and learning lead firms to repeat similar actions, in a process of “repetitive momentum” (Collins et al., 2009, p. 1330). Second, as argued by Forsgren (2002), firms do not only learn from their own operations, but can accelerate the learning process by acquiring foreign units. This view aligns with the learning perspective developed by Barkema and Vermeulen (1998), and Vermeulen and Barkema (2001). Third, if the acquiring company has accumulated significant experience of M&As, managers are more likely to launch M&A operations to satisfy their own interests (Billett and Qian 2008), even though successful past operations do not guarantee further success (Meschi and Métais, 2013).

Based on the above arguments we argue that:

H2. There is a positive relationship between international experiential knowledge and the likelihood of additional cross-border acquisitions.

The moderating effect of international experiential knowledge on reputation

We propose that experiential knowledge and reputation interact in influencing firms' behavior. Indeed, Haleblian et al. (2017) have shown that firms behave differently depending on their reputation. We argue that this different behavior is influenced by their CBA experience.

Less-reputed firms are less likely to succeed in international markets, and they benefit from less stakeholder trust. However, such firms are also less closely scrutinized by stakeholders and have less to lose in case of failure. They are also more likely to deploy risky strategies to demonstrate their ability to do so, and consequently to strengthen their reputational capital (see Fombrun and van Riel, 2004; Alsop, 2004; Dowling, 2002). This is particularly true as ‘reputations are evaluative’ (Coombs, 2007): stakeholders compare firms with each other. A less-reputed firm could increase its status by making international acquisitions. We argue that low-reputation firms decide whether to make cross-border acquisitions based on their experience of cross-border acquisitions. The combination of a low reputation and the absence of foreign acquisition experience would discourage firms from making cross-border acquisitions. Indeed, expanding internationally without experience would be too risky and would further reduce their (already low) reputational capital. Conversely, firms with CBA experience have learnt from this: they are more able to conduct such operations and aware of the difficulties associated with such operations. In sum, a lack of experience would further reduce the likelihood of low reputation firms making cross-border acquisitions, but previous cross-border acquisitions would increase their likelihood of making further such acquisitions. In others words, we argue that the *reputational advantage effect* will be stronger for experienced than for inexperienced firms.

Previous cross-border acquisitions and knowledge of the risk associated with such operations will have different effects on high-reputation firms. Such firms have less to gain from additional cross-border acquisitions. Moreover, in case of failure, they face significant risk of damage to their reputation. Haleblian et al. (2017, p. 2250) have shown that high-reputation firms ‘generated more negative market reactions than other firms that made similar acquisitions’. If the potential reputation loss is greater than the expected gains, then firms will refrain from conducting such operations. Because experienced firms are better able to evaluate the benefits

of cross-border acquisitions than unexperienced ones are, they are more aware of the difficulties and risks of such operations. We therefore argue that experience will decrease the probability of high-reputation firms making additional cross-border acquisitions. The *reputation preservation effect* will thus be strengthened by CBA experience.

Consequently, we hypothesize:

H3. Firms' international experiential knowledge moderates the relationship between reputation and the likelihood of subsequent cross-border acquisitions.

(At low reputation levels, the relationship between reputation and the likelihood of subsequent cross-border acquisitions will be greater for experienced than for inexperienced firms. At high reputation levels, the relationship between reputation and the likelihood of subsequent cross-border acquisitions will be smaller for experienced than for inexperienced firms.)

Our research model is presented in Figure 1.

[Insert Figure 1 here]

SAMPLE AND METHODS

Sample

We constructed a unique firm-level dataset from various sources. We first collected the reputation information from each local branch of the Reputation Institute. Data were available for companies from 12 different countries for a 5-year period (2010-2015). We then used Zephyr to identify the acquisitions announced by these companies and to collect information

about the deal and the acquired companies. We extracted financial and operational data about the acquirer from Datastream. Finally, we used the International Country Risk Guide (ICRG, PRS Group) to collect data on the investment profile for the countries of the acquirers and their targets. We removed operations in the banking and insurance industries from the sample, as their drivers are different from other industries. The final sample included 868 acquisitions completed between 2010 and 2015 by European and US multinationals.

Dependent, independent and control variables

The dependent variable is *Cross-border acquisition*, a dichotomous variable that takes the value 1 if the acquirer and the target are not located in the same country, and 0 otherwise.

The first independent variable, *Reputation*, is the acquiring firm's reputation. We used the index developed by the Reputation Institute, the world's leading reputation management consultancy. The institute provides an annual reputation score for large firms from many countries, which is essential for our research. This score, the so-called RepTrack™ Pulse, is determined by an online survey of more than 60 000 people, representative of each country's population in terms of age and gender, aged between 18 and 64 and familiar with the firm. The aim of the survey is to determine the reputation score of each firm through four emotional perceptions that structure its relationship with the public: trust, respect, admiration, and proximity. Participants are asked in their local language about their perceptions of the firm on a 7-point Lickert scale. The reputation score of each firm is then computed as the mean score for all respondents in the firm's home country. More details about the development and validation of the RepTrack™ Pulse measure are available in Ponzi, Fombrun and Gardberg (2011). The index is increasingly

used in academic research to measure reputation (Deephouse, Newburry and Soleimani, 2016; Thams, Alvarado-Vargas, & Newburry, 2016).

The second independent variable, *International experiential knowledge*, is the number of cross-border acquisitions conducted by the acquirer over the 10 years before the deal in question. Our choice of a 10-year period can be justified from an organizational learning perspective. Indeed, time “depreciates acquisition experience” (Meschi and Métais, 2013, p. 469) through a forgetting process. Restricting the international experience to a limited period seems appropriate, given that the knowledge generated by older operations may have been forgotten.

We introduced a number of control variables related to the acquirer, the deal, and the home countries of the acquirer and target. First, we used a set of variables covering acquirer’s size and performance: domestic experience, total assets, operating profit margin, foreign income, and net sales. Then we included the control variable *Diversification*, to account for relatedness between the acquirer and the target (Villalonga and McGahan, 2005). Finally, we included country-level variables to control for the institutional environment (Meyer et al., 2009; Li and Qian, 2013; Lebedev et al., 2015): *Investment profile acquirer* and *Investment profile target*. Indeed, better investor rights protection, both at home and abroad, reduces the risk associated with CBA and increases a firm’s likelihood to invest abroad.

We provide detailed definitions and sources of the variables in Table 1.

[Insert Table 1 here]

Estimation method

The estimated equation is the following:

$$\text{logit}(\Pr(Y_{ijt} = 1 \mid I_{it}, X_{it}, Z_{ct})) = \alpha + \beta I_{it} + \gamma X_{it} + \delta Z_{ct} + \mu_{it}, \quad (1)$$

where Y_{ijt} is the *cross-border acquisition* of firm j by firm i in year t , β , γ and δ are row vectors of coefficients, I_{it} represents the independent and moderating variables, X_{it} is a vector of firm-level variables, Z_{ct} is a vector of variables related to the (acquiring and target) firms' countries c , α is the constant, and μ_{it} is the error term. Because our dependent variable is a dichotomous variable, and to fully exploit the longitudinal nature of our data, our baseline estimations use a conditional fixed-effect logit model. This method has the advantage of controlling for firm heterogeneity and omitted variable bias (Holburn and Zelner, 2010). As for the reverse causality issue, it is unlikely that the dependent variable, the decision to acquire a specific firm, influences (i) a firm's reputation, which is the result of social perception over several years, or (ii) the firm's experience of cross-border acquisitions over the last ten years.

Nevertheless, to check the robustness of our results we also ran a pooled cross-sectional logit regression model, estimated with the maximum likelihood method, clustering standard errors at acquirer level. Indeed, according to Greene (2004), such a method can be appropriate for the kind of study we were conducting.

RESULTS

Table 2 presents descriptive statistics and a correlation matrix for all variables. The variance inflation factors (VIF) in our regression models are no higher than 3, indicating that multicollinearity is not a concern in our study (O'Brien 2007).

[Insert Table 2 here]

Table 3 presents the results of the fixed-effects logit regression models. The different regression models display a statistically significant fit. The models account for between 16.1% and 40.4% of the variance in acquirers' likelihood to undertake CBA. Model 1 presents the estimations with the control variables. Models 2, 3 and 4 test hypotheses 1, 2 and 3 respectively. Models 5 and 6 test hypotheses 2 and 3 using an alternative measure of *International experiential knowledge*.

[Insert Table 3 here]

In Model 2, the positive estimated coefficient of *Reputation* ($p < 0.05$) and the negative estimated coefficient of the quadratic term *Reputation*Reputation* ($p < 0.05$) confirms the inverted U-shaped relationship between firm reputation and the likelihood of CBA, supporting hypothesis 1. To understand the effects of this independent variable in more detail, we used the coefficient presented in Model 2 to compute the likelihood of any average firm in the dataset making a CBA. We present these probabilities in Figure 2. The highest probability of CBA is reached at a reputation level of 65 (out of 100) while the probability is lower for low and very high levels of reputation. The fact that the turning point of the inverted U-shaped relationship is included in the data range confirms the interpretation of the results (Haans, Pieters, and He, 2016).

[Insert Figure 2 here]

In Model 3, the positive estimated coefficient of *International experiential knowledge* ($p < 0.001$) indicates that the likelihood of a firm making a CBA increases with previous CBA experience, supporting Hypothesis 2. We present the predictive probabilities in Figure 3.

[Insert Figure 3 here]

Model 4 tests Hypothesis 3, according to which *International experiential knowledge* moderates the relationship between *Reputation* and *Cross-border acquisition*. The positive estimated coefficient of *Reputation* International experiential knowledge* ($p < 0.001$) and the negative estimated coefficient of the quadratic term *Reputation*Reputation*International experiential knowledge* ($p < 0.001$) confirms this moderation, supporting hypothesis 3. The relationship between reputation and the likelihood of subsequent CBA will be greater for experienced firms than for inexperienced firms at low reputation levels (values below the turning point), whereas at high levels of reputation (for values above the turning point) this relationship will be lower for experienced than for inexperienced firms. To compute and present graphically the predicted probabilities of CBA, we ran the estimation using a dichotomous variable, *International experiential knowledge*. The variable takes the value 1 if the firm has some prior CBA experience, and 0 otherwise. We present the results in Table 4, columns 5 and 6, and the predicted probabilities in Figure 4. Interestingly, the curve flips from an inverted to a normal U-shape for inexperienced firms, whereas it remains the same for experienced firms. This *shape-flip phenomenon* (Haans, Pieters, and He, 2016) is interesting, as it shows that the relationship between a firm's reputation and its decision to make CBAs depends on its CBA experience. The *reputational advantage effect* and the *reputation preservation effect* identified above are observed in firms that have already made CBAs, but not in inexperienced firms.

[Insert Figure 4 here]

We tested the robustness of our results using pooled cross-sectional logit regression models (Table 4). We included year fixed effects to control for temporal shocks. The results confirm our previous findings.

[Insert Table 4 here]

DISCUSSION

Despite extensive empirical research on CBAs, particularly on acquirers' performance (Bertrand, 2009, Bertrand and Capron, 2014; Cheng and Yang, 2017), little work has investigated the antecedents of the CBA decision (Buckley et al., 2016; Collins, 2009).

Our research contributes to understanding of the influence of intangible assets, which play a key role in internationalization strategies, and of how intangible assets impact investment decisions by multinationals (Pfaffer et al., 2010). MNE internationalization theories have recognized the importance of intangible assets, such as reputation and international experiential knowledge. The eclectic paradigm stresses that such assets are a major determinant of foreign investments (Dunning, 1980, 2000). They help MNEs to overcome their liability of foreignness (Wu and Salomon, 2016, 2017; Zaheer, 1995). According to the Uppsala model, international experiential knowledge tends to increase the commitment to foreign markets (Johanson and Vahlne, 1977; Johanson and Vahlne, 2009). In line with these theoretical frameworks, our empirical study shows that the acquirer's reputation and the knowledge it has acquired through previous CBAs influence the choice to make foreign acquisitions.

We find support for our three hypotheses. Hypothesis 1 suggests that there is an inverted U-shaped relationship between a firm's reputation and its likelihood of making CBAs. Our results confirm that the acquirer's reputation is a determinant of CBA, as a specific asset that can be

exploited internationally (Petkova et al., 2014, Zavyalova et al., 2016). MNEs are less reluctant to make international acquisitions, even if they are risky, because their reputation gives them confidence in their ability to create value (*reputation advantage effect*). Reputation can counter-balance the liability of foreignness and signal to the market the firm's ability to seize new market opportunities (Hitt et al., 2011). On the other hand, to preserve their hard-earned reputation, companies may prefer caution, especially when their stakeholders have high expectations (*reputation preservation strategy*) (Petkova et al, 2014; Haleblian et al., 2017). CBAs are risky strategies, as shown by their high failure rates. When they fail, stakeholder disappointment can damage the firm's reputation. These findings on the influence of reputation in the context of CBAs are novel to the literature.

Hypothesis 2 suggests a positive relationship between international experiential knowledge and the likelihood of making additional foreign acquisitions. Our empirical study confirms this. This finding is in line with the literature, which considers that experiential knowledge allows MNEs to anticipate the benefits and risks of their investment strategies more accurately (Buckley et al., 2016). Research has shown that knowledge and skills developed during previous international acquisitions determine the decision to make new deals (Collins et al., 2009; Haleblian et al., 2016). Thus, experience (*experiential knowledge*) can be considered as an intangible asset in the internationalization process (Johanson and Vahlne, 2009).

Hypothesis 3 posits that international experiential knowledge moderates the relationship between reputation and the likelihood of subsequent CBAs. This finding contributes importantly to understanding of the relationship between reputation and CBAs, and the impact of experience on CBAs. For less-reputed firms, the influence of international experiential knowledge on the likelihood of future CBAs appears stronger. CBAs could be used as an investment strategy to increase their reputation. In fact, MNEs may develop riskier strategies to demonstrate their abilities (Fombrun and van Riel, 2004; Alsop, 2004; Dowling, 2002).

International experiential knowledge can help companies overcome the liability of their lack of status. Firms with a poor reputation and no international acquisition experience may consider CBAs as too risky, since their reputation may decline sharply in the case of failure. Conversely, when firms benefit from a strong reputation, the relationship between reputation and the likelihood of CBAs is weaker for firms with international experiential knowledge. In that case, the risk to their reputation outweighs the expected profits. These firms will evaluate the risks and costs of CBAs more accurately when they have international experiential knowledge, and this experience will make them less likely to make foreign acquisitions. This result is in the line with Halebian et al. (2017), who observe that the returns are more likely to be negative for high reputation firms.

CONCLUSION

This research aims to contribute to understanding of the decision by MNEs to make cross-border acquisitions. Building on internationalization theories (Dunning, 1980, 2000; Johanson and Vahlne, 1977, 2009; Zaheer, 1995) and the emerging literature on reputation (Petkova et al., 2014; Pfarrer et al., 2010; Ravasi et al., 2018; Rindova et al., 2005; Zavyalova et al., 2016), we constructed a research model to explain the impact of intangible assets (reputation and international experiential knowledge) on the likelihood of CBA. To test this model, we manually collected a unique database of 868 acquisitions completed between 2010 and 2015 by European and US multinationals.

Our study fills an important research gap concerning the role of intangible assets in strategic decisions (Pfarrer et al., 2010). Our results clearly indicate that the acquirers' reputation and international experiential knowledge determine their likelihood to make CBAs. In line with Halebian et al. (2017), we explain the ambiguous role of reputation, identifying a U-shaped

relationship between reputation and CBA decisions, and the moderating effect of international experiential knowledge on this relationship. We also highlight the central role played by intangible assets in the international expansion of MNEs, as suggested by internationalization theories (Dunning, 1980, 2000; Johanson and Vahlne, 1977; Johanson and Vahlne, 2009). Our findings suggest the importance of paying careful attention to the effects of intangible assets on CBA decisions.

Our study also has several limitations, opening new avenues for future research. First, we focus on the role of the acquiring firm's intangible assets, and it would be interesting to investigate how the target's reputation influences CBA decisions. Second, we did not consider possible home- and host-country effects, and it seems particularly important to differentiate between CBAs conducted in mature and emerging economies. Third, we have exclusively analyzed completed deals, and future research could focus on the role of reputation and international experiential knowledge on CBA performance. Finally, future studies could measure the impact of intangible assets on other entry modes, such as greenfield investments, to identify their role in theoretical frameworks on MNE internationalization.

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Figure 1 Research model

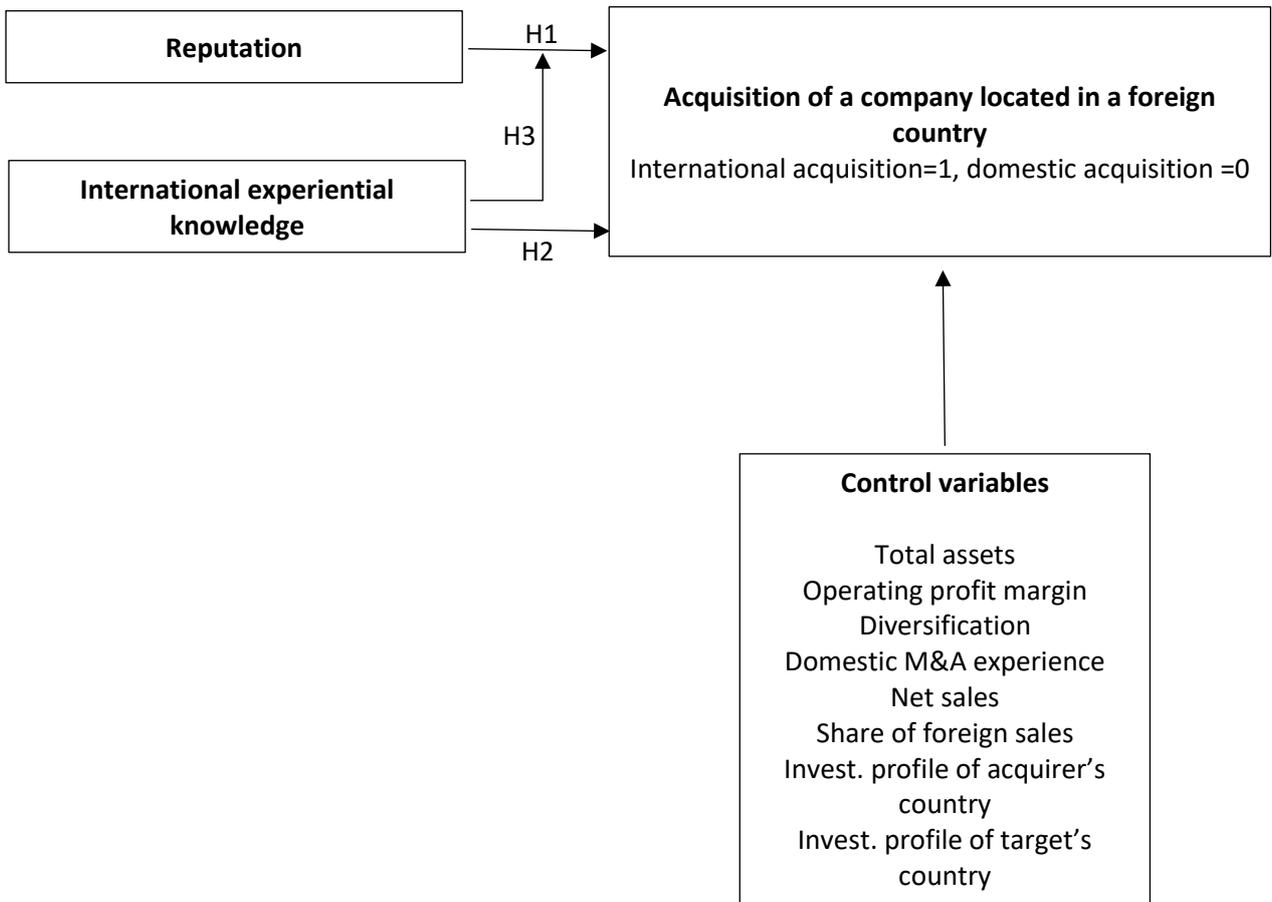


Table 1 Variables, measurement and sources

Variable	Measurement	Source
Cross-border acquisition	Dummy variable: 1 if the acquirer and the target are not located in the same country.	Authors' construction based on Zephyr
Reputation	RepTrack™ index, developed by Burson-Marsteller and the Reputation Institute, based on a survey of more than 2000 individuals.	Local branches of the Reputation Institute
International experiential knowledge	Number of cross-border acquisitions conducted by the acquirer over the 10 years before the deal analyzed.	Authors' calculation based on Zephyr
Domestic experience	Number of domestic acquisitions conducted by the acquirer over the 10 years before the deal analyzed.	Authors' calculation based on Zephyr
Total assets	Total assets of the acquirer (USD), in natural logarithm.	Datastream
Operating profit margin	Operating profit/total revenue of the acquirer.	Datastream
Foreign income	Share of foreign income over total of the acquirer	Datastream
Net sales	Net sales of the acquirer (USD), in natural logarithm.	Datastream
Diversification	Dummy variable, equal to 1 if the acquirer's standard industrial classification (SIC) code (2 digits) is different from that of the target company, 0 otherwise.	Authors' construction based on Zephyr
Investment profile acquirer	Investment profile of the acquirer's country: assessment of three factors affecting the risk to investment (contract viability, profits repatriation and payment delays). A high score represents a low risk.	ICRG (International Country Risk Guide)
Investment profile target	Investment profile of the target's country: assessment of three factors affecting the risk to investment (contract viability, profits repatriation and payment delays). A high score represents a low risk.	ICRG (International Country Risk Guide)

Table 2 Descriptive statistics and correlation matrix

Variable	Mean	S. d.	1	2	3	4	5	6	7	8	9	10
1. Cross-border acquisition	0.61	0.49										
2. Reputation	68.01	7.36	-0.09*									
3. International experiential knowledge	16.52	18.65	0.34*	-0.04								
4. Domestic experience	11.88	17.01	-0.24*	-0.07*	-0.02							
5. Total assets	17.05	1.30	-0.13*	0.23*	-0.02	0.16*						
6. Operating profit margin	15.64	8.55	-0.10*	0.11*	0.01	0.20	0.30*					
7. Foreign income	11.43	97.53	0.15*	-0.14*	0.11*	-0.07*	-0.05	0.14*				
8. Net sales	16.74	1.19	-0.13*	0.28*	-0.06	0.16*	0.92*	0.07*	-0.14*			
9. Diversification	0.57	0.50	-0.05	-0.08*	0.15*	0.03	-0.09*	-0.06	0.10*	-0.12*		
10. Investment profile acquirer	10.40	1.58	-0.24*	0.12*	-0.15*	0.16*	0.28*	0.25*	-0.19*	0.31*	-0.06	
11. Investment profile target	10.40	1.81	-0.21*	0.14*	-0.09	0.10*	0.17*	0.22	-0.09*	0.14	-0.08	0.33*

Notes: * denotes statistical significance at $p < 0.05$.

Table 3 Fixed-effects logit regression models

	Dependent variable : cross-border acquisition					
	Experience : level				Experience : dummy	
	(1)	(2)	(3)	(4)	(5)	(6)
Domestic experience	-0.027***	-0.027***	-0.040***	-0.043***	-1.310**	-1.352**
	(0.008)	(0.008)	(0.008)	(0.009)	(0.440)	(0.455)
Total assets	-0.263	-0.343	-0.603*	-0.746**	-0.393	-0.467
	(0.268)	(0.276)	(0.316)	(0.338)	(0.281)	(0.293)
Operating profit margin	0.027	0.033*	0.027	0.036*	0.026	0.032*
	(0.017)	(0.018)	(0.019)	(0.020)	(0.017)	(0.017)
Foreign income	0.001	0.001	-0.006*	-0.005	0.001	0.001
	(0.003)	(0.003)	(0.004)	(0.004)	(0.003)	(0.003)
Net sales	0.280	0.449	0.558*	0.750**	0.325	0.481
	(0.289)	(0.308)	(0.337)	(0.365)	(0.301)	(0.323)
Diversification	0.098	0.112	-0.182	-0.127	-0.103	-0.098
	(0.214)	(0.216)	(0.237)	(0.260)	(0.218)	(0.225)
Investment profile acquirer	-0.426***	-0.418***	-0.379***	-0.367***	-0.527***	-0.519***
	(0.084)	(0.085)	(0.101)	(0.107)	(0.088)	(0.089)
Investment profile target	-0.159**	-0.163**	-0.197**	-0.216**	-0.116*	-0.129*
	(0.062)	(0.063)	(0.074)	(0.081)	(0.063)	(0.066)
Reputation		0.361**		-0.902**		-0.953
		(0.161)		(0.310)		(0.628)
Reputation*Reputation		-0.003**		0.007**		0.007
		(0.001)		(0.002)		(0.005)
International experiential knowledge			0.089***	-4.236***	1.924***	-44.547**
			(0.013)	(0.938)	(0.429)	(21.577)
Reputation*International experiential knowledge				0.129***		1.429**
				(0.028)		(0.652)
Reputation*Reputation*International experiential knowledge				-0.001***		-0.011**
				(0.000)		(0.005)
Observations	619	619	619	619	619	619
Pseudo-R2	0.161***	0.177***	0.353***	0.404***	0.199***	0.223***
Log likelihood	-202.842	-199.093	-156.518	-144.221	-193.596	-187.913
LR X2	77.972	85.470	170.619	195.215	96.465	107.831

* p<0.10, ** p<0.05, *** p<0.001.

Standard errors between parentheses.

Table 4 Pooled cross-sectional logit regression models

	Dependent variable : cross-border acquisition					
	Experience : level				Experience : dummy	
	(1)	(2)	(3)	(4)	(5)	(6)
Domestic experience	-0.016**	-0.016**	-0.019**	-0.023***	-0.794**	-0.845**
	(0.007)	(0.007)	(0.006)	(0.005)	(0.292)	(0.291)
Total assets	-0.011	-0.060	-0.113	-0.170	0.073	0.067
	(0.257)	(0.251)	(0.205)	(0.212)	(0.245)	(0.245)
Operating profit margin	0.003	0.006	-0.001	0.005	-0.008	-0.007
	(0.016)	(0.016)	(0.013)	(0.014)	(0.016)	(0.016)
Foreign income	0.002	0.002	0.001*	0.001	0.002	0.002
	(0.002)	(0.002)	(0.001)	(0.001)	(0.002)	(0.002)
Net sales	0.011	0.117	0.014	0.129	-0.141	-0.082
	(0.278)	(0.278)	(0.227)	(0.239)	(0.275)	(0.279)
Diversification	-0.170	-0.161	-0.228	-0.146	-0.228	-0.231
	(0.222)	(0.220)	(0.205)	(0.193)	(0.207)	(0.206)
Investment profile acquirer	-0.131	-0.141*	-0.020	-0.045	-0.134*	-0.141*
	(0.081)	(0.079)	(0.080)	(0.078)	(0.079)	(0.079)
Investment profile target	-0.148**	-0.155**	-0.165**	-0.184**	-0.134**	-0.143**
	(0.052)	(0.051)	(0.059)	(0.060)	(0.053)	(0.052)
Reputation		0.279**		-0.351*		-0.634
		(0.137)		(0.194)		(0.408)
Reputation*Reputation		-0.002**		0.002*		0.005
		(0.001)		(0.001)		(0.003)
International experience			0.054***	-2.245***	1.274***	-29.147**
			(0.010)	(0.601)	(0.290)	(14.485)
Reputation*International experiential knowledge				0.068***		0.957**
				(0.018)		(0.433)
Reputation*Reputation*International experiential knowledge				-0.001***		-0.007**
				(0.000)		(0.003)
Constant	3.616**	-5.884	3.745**	15.643**	4.191**	23.732*
	(1.587)	(4.843)	(1.520)	(6.968)	(1.590)	(13.907)
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	868	868	868	868	868	868
Pseudo-R2	0.131***	0.148***	0.265***	0.302***	0.152***	0.175***
Log likelihood	-503.267	-493.347	-425.777	-404.149	-491.314	-477.680
LR X2	38.572	43.366	83.217	99.439	48.553	55.208

* p<0.10, ** p<0.05, *** p<0.001.

Standard errors clustered at the acquirer level between parentheses.

Figure 2

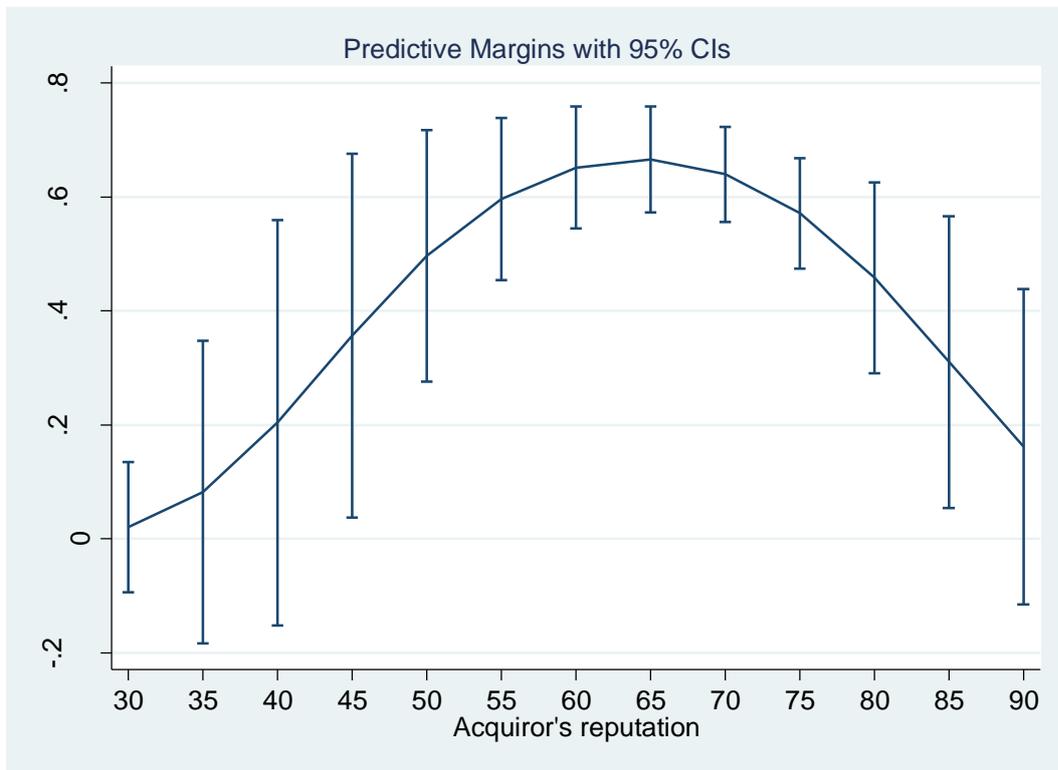


Figure 3

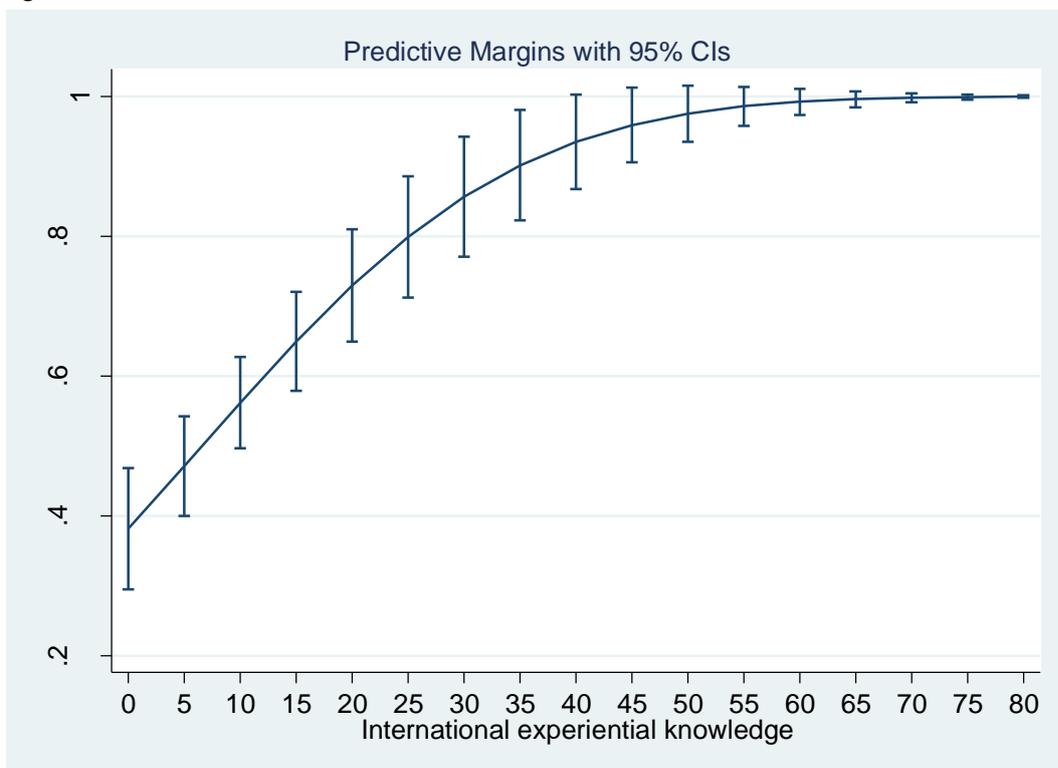


Figure 4

