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Intangible resources and cross-border acquisition decisions: the impact of reputation and the moderating effect of experiential knowledge

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Abstract: Drawing from the resource-based view, signaling theory, and internationalization literatures, we argue that a key intangible resource – reputation – influences the decision to engage in cross-border acquisitions (CBAs). Reputation facilitates foreign entry by reducing the risks and costs inherent in such strategic moves, while acting to curb potentially risky decisions. Based on a longitudinal sample of 869 acquisitions conducted by European and US firms, our study confirms the inverted U-shaped relationship between a firm's reputation and the likelihood of undertaking CBAs. We also find that international experiential knowledge moderates the relationship between reputation and the likelihood of additional CBAs. Our research contributes to the growing literature on the influence of intangible strategic resources, especially that of reputation, on foreign entry strategies.

Keywords: cross-border acquisitions, information asymmetry, signal, reputation, international experiential knowledge

1. Introduction

The unprecedented level of cross-border acquisitions (hereafter CBAs) has led researchers from several academic fields to investigate the phenomenon, generating extensive knowledge of the antecedents, outcomes, and moderators of the acquisition-performance relationship (Bauer and Matzler, 2014; Haleblian, Devers, McNamara, Carpenter, and Davison, 2009). The international business (IB) literature is at the forefront of this trend as acquisitions are a favorite market entry mode for multinational enterprises (MNEs) (Xie, Reddy, and Liang, 2017). CBAs enable MNEs to circumvent major market entry barriers, save time in establishing their presence in foreign markets (Slangen and Hennart, 2008), and benefit from location advantages while avoiding the risks associated with greenfield investments (Dunning, 2009).

However, CBAs entail greater risk and uncertainty than domestic acquisitions due to the information asymmetry that acquirers face in foreign countries (Malhotra and Gaur, 2014; Mukherjee, Makarius, and Stevens, 2018; Reuer and Ragozzino, 2014; Stevens and Makarius, 2015), especially if the “acquisition entails added cultural distance for the acquirer” (Kim, Gaur, and Mukherjee, 2020, p. 501). Such asymmetry leads to a greater risk of adverse selection and moral hazard, which in turn increases transaction costs (Scalera, Mukherjee, and Piscitello, 2020; Stevens, Makarius, and Mukherjee, 2015). Despite the significant amount of CBA research, recent studies have investigated mostly how CBAs influence acquirer performance (Bertrand, 2009; Bertrand and Capron, 2015; Cheng and Yang, 2017), in addition to the impact of host country characteristics on CBA decisions (Arslan, Tarba, and Larimo, 2015; Xie et al., 2017). Surprisingly, research has focused less on how firms can overcome the obstacles generated by information asymmetry. In their recent pioneering work, Stevens and Makarius (2015) argue that such obstacles can be surmounted by a “firm’s

resources that provide credible information about a firm's intention" (p. 259), i.e. corporate reputation. In a complex environment, reputation is an easily identifiable signal (Bergh, Connelly, Ketchen, and Shannon, 2014), and it reassures local stakeholders about the firm's intentions during the internationalization process (Mukherjee et al., 2018; Stevens and Makarius, 2015).

Building on these insights, which open perspectives for advancing knowledge on the impact of intangible strategic resources on internationalization strategies, our study contends that reputation plays a major role in the decision to expand internationally through CBAs. Additionally, we suggest that another key intangible asset – experiential knowledge – moderates the impact of reputation on the decision to conduct CBAs. Indeed, the literature has argued that knowledge generated by prior international experience reduces information asymmetry and the resulting transaction costs of market entry. This is due to an enhanced understanding of foreign markets and the development of routines for the different phases of the operation (Malhotra and Gaur, 2014; Reuer and Ragozzino, 2014; Scalera et al., 2020). Therefore, our research fills the gap identified by Pfarrer, Pollock, and Rindova (2010), who argue that the influence of intangible assets on organizational strategies and performance is a poorly understood phenomenon. It also responds to the calls by Stevens and Makarius (2015) and Mukherjee, Makarius, and Stevens (2021) to investigate more closely the role of corporate reputation as a strategic intangible resource in foreign entry strategies.

Consequently, our research question is the following: *how does reputation influence CBA decisions and what is the moderating effect of experiential knowledge?* Drawing from the resource-based view (RBV), signaling theory and internationalization theories, we develop and test two hypotheses. First, we hypothesize an inverted U-shaped relationship between firm reputation and the likelihood of CBAs. Reputation facilitates the decision to acquire foreign firms up to a certain threshold, since it reassures stakeholders (*reputational*

advantage effect) by reducing information asymmetry (Bergh et al., 2014; Mukherjee et al., 2018). However, after the threshold, it constitutes an obstacle, as high-reputation firms tend to avoid risky decisions (Parker, Krause, and Devers, 2019) that might damage their reputation (*reputation preservation effect*). Second, we hypothesize that the knowledge generated through prior CBA experience moderates the reputation/CBA-decision relationship: CBA experience reinforces both reputational advantage and reputation preservation effects. Indeed, such experience provides managers with the knowledge and self-confidence they need to undertake further cross-border operations (Haleblian, Kim, and Rajagopalan, 2006), but it also makes them aware of the associated risks and the potential damage to their reputation in case of poor CBA outcomes.

We test our two hypotheses on a unique dataset of 869 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) acquirer reputation, (iii) acquirer and target financial and operational information, and (iv) the national investment profiles of both acquirers and targets. Our longitudinal data enabled us to consider MNEs' specific unobserved heterogeneity, a crucial issue for such studies.

We contribute to the literature in two ways. First, we add to the growing strategy literature examining how intangible assets shape strategic decisions, and answering recent calls for such studies (Mukherjee et al., 2021; Pfarrer et al., 2010; Stevens and Makarius, 2015). We provide evidence that acquirer reputation influences subsequent CBA decisions, and that this relationship is moderated by international experiential knowledge, which constitutes a novel contribution to the literature. Moreover, our study provides a nuanced view of the influence of reputation on the propensity to undertake costly and risky cross-border operations. These insights complement the recent findings of Haleblian, Pfarrer, and Kiley (2017) on the distinctive behavior of high-reputation firms and those of Parker et al. (2019)

relative to the burden and liabilities of a good reputation. Second, we contribute to the IB literature by identifying firm-level factors that influence entry mode decisions. The role of intangible assets has been central in the internationalization and entry mode literatures, as such assets enable firms to overcome the liability of foreignness (Wu and Salomon, 2016, 2017; Zaheer, 1995) and information asymmetry (Malhotra and Gaur, 2014; Mukherjee et al., 2018; Reuer and Ragozzino, 2014; Stevens and Makarius, 2015). However, more research is needed to identify influential intangible resources and to reveal how they interact to affect MNE acquisition decisions. Our research highlights the influence of two key internal intangible resources – reputation and international experiential knowledge – on the internationalization decision.

2. Theoretical framework and hypotheses

2.1 Why do firms conduct cross-border M&As?

The motives behind cross-border M&As have been the subject of investigation in a number of disciplines, including finance, economics, strategy, and IB. As a result, a variety of possible explanations as to why firms engage in cross-border M&As have been put forward (Haleblian et al., 2009; Lebedev, Peng, Xie, and Stevens, 2015; Meyer-Doyle, Lee, and Helfat, 2019). Based on an extensive review of the M&A literature spanning different disciplines, Haleblian et al. (2009) identify four main categories of M&A motives: (i) value creation, (ii) managerial self-interest (also regarded as value destruction), (iii) environmental factors, and (iv) firm characteristics. Building on Angwin's (2007) categorization of acquirers' motives – financial, economic, and strategic –, Lim and Lee (2016) argue that because it is often difficult to differentiate between economic and strategic motives, studies should consider two main categories of motives, namely financial and strategic.

Looking into strategy and IB literatures, resources as a concept appear central to understanding M&A motives, and cross-border operations, in particular. Traditional IB theories such as the internalization theory (Buckley and Casson, 1976) and the OLI (Ownership, Location, and Internalization) paradigm (Dunning, 1980, 2000) consider cross-border M&As from the perspective of exploiting acquirers' resources in foreign locations, that is, leveraging ownership-specific advantages to expand abroad. Based on this perspective, firms are pushed to internationalize via FDI by their firm-specific advantages, which stem from the tangible and intangible resources that they possess and can deploy in foreign markets. However, although this asset-exploitation perspective explains very convincingly why firms from developed countries conduct M&As, it has failed to explain why emerging market multinationals (EMNEs) conduct cross-border M&As, especially when they acquire firms located in developed countries (Dikova et al., 2019; Gubbi et al., 2010). This is because, arguably, EMNEs do not have ownership-specific advantages or particular resources (such as advanced technology or reputation) that they can leverage in developed markets. Thus, the stream of research studying the M&As of EMNEs has provided alternative explanations as to why these firms proceed with overseas acquisitions, which, contrary to asset-exploitation, focus on asset-seeking and asset-building. Makino, Lau, and Yeh (2002) thus argue that firms invest in foreign markets not only to exploit their assets (valuable resources), but also to develop and acquire strategic assets in host countries. Consequently, resource-seeking and strategic asset-seeking appear as important motives for FDI, including cross-border M&As. Gubbi and Elango (2016) further deepen this idea by identifying two categories of asset-seeking acquisitions: resource deepening (acquisitions of resources that are close to the firm's existing resource portfolio), and resource extension (acquiring resources that are more distant from the current resource portfolio of the firm).

In summary, two main types of strategic motives for cross-border M&As can be identified in the literature: asset (resource)-exploitation (Buckley and Casson, 1976; Dunning, 1988), and asset (resource)-seeking or resource-building (Gubbi et al., 2010; Gubbi and Elango, 2016; Dikova et al., 2016; Lebedev et al., 2015; Makino et al., 2002; Mathews, 2006). Although these perspectives contrast each other, they share the central notion of firm assets, or resources and competencies. This points to their decisive role in determining both a firm's ability to conduct M&As as well as its motivations in approaching foreign markets using the risky and often costly instrument of M&As. Figure 1 summarizes the main strategic motives for cross-border M&As.

[Insert Figure 1 here]

Examples of major CBAs conducted by European and US multinationals, and their underlying motives are provided in Appendix 1. The selected examples show that CBAs can be driven by resource-exploitation and/or resource-seeking motives. Several multinationals are engaged in CBAs to exploit their resources in foreign markets, leveraging their ownership-specific advantages built on tangible and intangible resources. For example, Novartis, a Swiss pharmaceutical company, acquired GlaxoSmithKline's oncology product unit in the United Kingdom to exploit ownership-specific advantages on a global scale: "We need to have market-leading businesses with global scale that can compete in a tough pricing environment" (CEO Novartis, Financial Times, 23/04/2010); "the planned acquisition of GlaxoSmithKline's oncology products is expected to reinforce our already strong position in cancer treatments" (Annual Report Novartis, 2014, p. 30).

Other multinationals conducted CBAs to seek new tangible and intangible resources. For example, Solvay, a Belgian chemical company, acquired Rhodia in France to access new

resources and become a global market leader: “We see the possibility of doubling our [earnings] to almost €2 billion and creating a major global chemicals platform under the banner of Solvay” (CEO Solvay, *The Wall Street Journal*, 05/04/2011); “what emerges is an even more powerful Solvay, with the critical mass and strategic assets to approach with confidence the troubled times ahead in the global economy (Chairman of the Executive Committee; Chairman of the Board of Directors, *Annual Report Solvay*, 2011, p. 4).

Some multinationals made CBAs for both resource-exploitation and resource-seeking motives. Archer Daniels Midland (ADM), a US food processing and commodities trading company, acquired WILD Flavors in Switzerland to seek out new resources and exploit existing ones: “With ADM’s global origination, transportation, processing and distribution network as our foundation, we significantly increased our capabilities and our existing portfolio of specialty-ingredients businesses (...) through the acquisition of WILD Flavors, one of the world’s leading suppliers of natural ingredients to the food and beverage industry. WILD’s technical and product-development capabilities, along with its flavor and ingredient systems, enable ADM to offer our food customers a wide range of solutions that address taste, texture, nutrition and function” (CEO and President; Chairman of the Board of Directors, *Annual Report Archer Daniels Midland*, 2014, p. 3).

Extant literature and these illustrations emphasize the role of tangible and intangible resources as key factors influencing managers’ decisions to expand internationally. However, the literature relating to intangible resources and internationalization decisions has thus far remained scarce, and has not produced much empirical evidence, in particular when it comes to the influence of intangible assets on international expansion through acquisitions. One reason for this is that intangible assets are difficult to observe and measure, as they are not included in company accounts (Delgado-Gómez, Ramírez-Alesón, and Espitia-Escuer, 2004). Our study focuses on two intangible resources identified by Hall (1992) as the main

contributors to sustainable competitive advantage and that take time to develop, namely, reputation and knowledge.

2.2 Reputation and CBAs

According to the RBV, “the resource bundles [...] are heterogeneous across firms” (Peteraf, 1993, p. 180), and this heterogeneity may explain why some firms are able to create superior value, while others are not. Resource heterogeneity results from the possession of both tangible and intangible resources. Tangible resources, like physical and human resources, are crucial factors in a firm’s operations, but they need to be complemented by intangible resources in order to make firms competitive. This is because intangible resources are developed through socially complex processes, which makes them difficult to replicate (Barney, 1991). Defined as “stakeholders’ perceptions of an organization’s ability to create value relative to competitors” (Rindova, Williamson, Petkova, and Sever, 2005, p. 1033), reputation is a valuable intangible resource contributing to MNE performance (Barney, 1991; Ravasi, Rindova, Etter, and Cornelissen, 2018; Rindova et al., 2005; Rindova, Williamson, and Petkova, 2010). The role of reputation is particularly important for decisions regarding international expansion and acquisitions, as cross-border operations increase information asymmetry and the risk of adverse selection and moral hazard (Mukherjee et al., 2021; Reuer and Ragozzino, 2014; Stevens and Makarius, 2015; Stevens et al., 2015). According to signaling theory (Spence, 1973, 1974, 2002), some information is private, i.e., not available to all actors, and information asymmetries arise between those who possess the information and those who could benefit from that information (Connelly, Certo, Ireland, and Reutzel, 2011). In other words, information asymmetries arise when “different people know different things” (Stiglitz, 2002, p. 469).

CBAAs are considered riskier than domestic acquisitions because they entail dealing with different cultures, institutions, and regulations, because differences between the home and host countries might lead to post-integration challenges (Miller and Eden, 2006), and because acquirers might suffer from liability of foreignness (Zaheer, 1995). Consequently, the opportunities and risks related to such operations are harder for investors to assess (Moeller and Schlingemann, 2005), especially in a context where acquisition returns are uncertain (Brouthers and Dikova, 2010). In sum, as CBAs involve firms in different countries, regions, or continents, they generate far more uncertainty for decision-makers than domestic operations.

Based on this literature, we argue that 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, Wadhwa, Yao, and Jain, 2014; Saeidi, Sofian, Saeidi, Saeidi, and Saaeidi, 2015; Zavyalova, Pfarrer, Reger, and Hubbard, 2016). As Petkova et al. (2014, p. 423) theorized, “reputation exerts dual pressures on a firm’s decision.” On the one hand, reputable firms aspire to enhance their performance, making them more likely to search for new opportunities or to take riskier strategic moves. In addition, as reputation is inferable from firms’ past actions and performance (Fombrun and Shanley, 1990), a good reputation will increase managers’ confidence in their own ability to create value from strategic actions. In an uncertain context, a good reputation can facilitate CBAs, as firms can leverage their *reputational advantage* to overcome the liability of foreignness and transaction costs inherent in foreign market entry. According to the signaling theory, reputation acts as a signal to reassure investors of the company’s ability to respond to market expectations (Hitt, Harrison, and Ireland, 2001) and to host country stakeholders of the firm’s competence and trustworthiness (Mukherjee et al., 2018; Stevens and Makarius, 2015). This positive signal

received by local stakeholders reduces transaction costs by facilitating interaction with local business partners and regulators, in turn facilitating access to local resources and integration in local networks (Mukherjee et al., 2018). In other words, this key intangible resource acts as a signal to foster foreign market entry (Stevens and Makarius, 2015; Stevens et al., 2018). Recently, Dau, Moore, and Newbury (2020) even evidenced the positive effect of a good reputation on international investments at country level.

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 subject to higher stakeholder expectations (Haleblian et al., 2017; Parker et al., 2019; Petkova et al., 2014). The uncertainty associated with CBAs could therefore encourage firms to adopt a *reputation preservation* strategy, that is, to limit their risk by settling for safer domestic acquisitions. Considering reputation one of their crucial assets, MNEs might be reluctant to use the high-risk instrument of CBAs so as not to jeopardize their reputation. In particular, when their reputation is very high, the potential gains from CBAs might not offset the associated risks, which could lead MNEs to refrain from adopting such a strategic move. Many empirical studies have investigated the performance outcomes of CBAs without reaching a consensus (Hassan, Ghauri, and Mayrhofer, 2018), because, arguably, “M&A performance is an ambiguous construct” (Meglio and Risberg, 2011, p. 429). Most studies measure the value acquisitions create by the cumulative abnormal returns around the announcement of the deal (Chalençon, Colovic, Lamotte, and Mayrhofer, 2017; Tao, Liu, Gao, and Xia, 2017). Interestingly, Haleblian et al. (2017) show that stock markets react negatively to acquisitions, and that this reaction is stronger for highly reputed firms. The performance outcome of acquisitions, especially CBAs, is thus far from certain, which can lead well-reputed firms to avoid the risk altogether by preferring domestic acquisitions. Recently, Parker et al. (2019, p. 254) developed a theoretical

framework identifying two forms of reputation: “those rooted in a firm’s behaviors and those rooted in a firm’s outcomes.” The authors examine how reputation can affect the decisions of managers who want to meet stakeholder expectations. Stakeholders consider that the company will maintain its reputation based on its outcome or its behavior. Thus, when reputation is based on an outcome, managers feel constrained in their objectives whereas they feel constrained in their actions when reputation is rooted in their behavior (Parker et al., 2019).

Based on these insights, we argue that MNEs with a better reputation are more likely to make international acquisitions than domestic ones. Such a strategy enables them to exploit this strong asset abroad, and their reputation reduces the costs inherent in their foreign entry. 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, notably investors, and damage their reputation. Accordingly, we hypothesize:

H1. The relationship between firm reputation and CBA likelihood is curvilinear (inverse U-shaped), with CBAs taking place most likely when reputation is at an intermediate level.

2.3 The moderating effect of international experiential knowledge

Experiential knowledge, defined as the “learning acquired through the means of personal and professional experience of conducting IB in home and host countries” (Buckley, Munjal, Enderwick, and Forsans, 2016, p. 676), has been central to explaining the internationalization process and market entry mode choice (Eriksson, Johanson, Majkgard, and Sharma, 1997). The Uppsala internationalization model points to a slow, gradual involvement in foreign markets as a result of the interaction between market knowledge and market commitment (Johanson and Vahlne, 1977, 2009; Welch and Paavilainen-Mäntymäki, 2014). Firms overcome perceived risks and costs of internationalization by gathering

knowledge from their own operations or collaborating with other firms (Buckley et al., 2016; Lim and Lee, 2016). Experience and business relationships therefore provide firms with an intangible resource – knowledge – that will further enhance internationalization (He and Zhang, 2016). Knowledge generated by experience (*experiential knowledge*) thus becomes a driving force in the internationalization process (Johanson and Vahlne, 1990) and constitutes a specific and implicit asset for the internationalizing firm (Johanson and Vahlne, 2009).

In the present study, we focus on specific knowledge acquired through CBA experience – *international experiential knowledge*. Such knowledge increases the likelihood of subsequent acquisitions for several reasons. Drawing on organizational learning theory (Argyris, 1977; Argyris and Schön, 1978), research has shown that knowledge and skills acquired from prior acquisitions, especially CBAs, can help a firm to make additional CBAs (Haleblian et al., 2006). Experience and learning can lead a firm to repeat similar actions in a process of “repetitive momentum” (Collins, Holcomb, Certo, Hitt, and Lester, 2009, p. 1330). A firm can learn from experience and adjust its process for target selection, evaluation, acquisition, and integration (Chao, 2018; Galavotti, Cerrato, and Depperu, 2017). In addition, if the acquiring company has accumulated significant M&A experience, 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). When managers’ confidence grows, thanks to accumulated experience in particular, they can carry out operations that would not otherwise have been undertaken due to the risks involved (Drogendijk and Slangen, 2006). Nevertheless, as Forsgren (2002) argued, firms do not only learn from their own operations, but can accelerate the learning process by acquiring foreign units. This view echoes the learning perspective developed by Barkema and Vermeulen (1998), and Vermeulen and Barkema (2001). In addition, experience reduces the

strong information asymmetry inherent in cross-border investments thanks to a better knowledge of markets and processes (Malhotra and Gaur, 2014; Scalera et al., 2020).

We suggest that experiential knowledge and reputation interact in informing a firm's behavior. Indeed, Haleblan et al. (2017) show that firms behave differently depending on their reputation. We argue that CBA experience influences this behavior. In line with Scalera et al. (2020), we consider that firms with previous experience in the host country are more able to anticipate risks and difficulties and to counterbalance an unfavorable reputation by capitalizing on their experience.

Less reputed firms are less likely to succeed in international markets, and command weaker stakeholder trust (Mukherjee et al., 2018). However, such firms are 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 Alsop, 2004; Fombrun and van Riel, 2004; Roberts and Dowling, 2002). This is particularly true as “reputations are evaluative” (Coombs, 2007): stakeholders compare firms between each other. A less reputed firm could increase its status by making international acquisitions. We argue that firms with a low reputation will decide whether to make CBAs based on their CBA experience. The combination of low reputation and the absence of foreign acquisition experience discourages firms from making CBAs. Indeed, expanding internationally without experience would be too risky, and would reduce their (already low) reputational capital further. Conversely, MNEs with CBA experience learn from their previous CBAs, and they are more able to undertake such operations and more aware of the difficulties associated with them (Scalera et al., 2020). In sum, lack of experience is liable to further reduce the likelihood of low-reputation firms undertaking CBAs, while previous CBAs would increase their likelihood of conducting additional acquisitions. In other

words, we argue that the *reputational advantage effect* is stronger for experienced than for inexperienced firms.

Previous CBAs and knowledge of the risks associated with such operations will have different effects on high-reputation firms. Such firms have less to gain from additional CBAs. Parker et al. (2019) argue that managers of companies with a strong reputation feel constrained in their actions and/or behavior. Moreover, in case of failure, they face significant risk of damage to their reputation. Haleblian et al. (2017, p. 2250) demonstrate 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 undertaking such operations. Experienced firms are better able to evaluate the benefits of CBAs than inexperienced ones, but they are also more aware of the difficulties and risks of such operations (Galavotti et al., 2017). We therefore argue that experience will decrease the probability of high-reputation firms making additional CBAs. The *reputation preservation effect* will thus be strengthened by CBA experience.

Consequently, we hypothesize:

H2. Firms’ international experiential knowledge moderates the relationship between reputation and the likelihood of subsequent CBAs, such that firms with an intermediate reputation are more likely to engage in CBAs when they are experienced than when they are inexperienced.

We present our research model in Figure 2. Table 1 presents the key articles that link reputation and international experience with CBAs.

[Insert Figure 2 here]

[Insert Table 1 here]

3. Sample and methods

3.1 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 deals and the companies acquired. We extracted financial and operational data about the acquirer and the target 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 those in other industries. The final sample included 869 acquisitions completed between 2010 and 2015 by European and US multinationals. We determined the time and geographical span according to reputation data availability.

Using the same methodology, data were collected from the population (all acquisitions from Europe and the United States during the same period) to ensure that the sample was representative. As our sample focuses on large and listed acquirers, we selected deals where the acquirer is a listed firm with total assets of more than USD 200 million, the lowest value in our sample. In the whole population and our sample, the deals were made mainly by acquirers from the manufacturing sector (population: 50%; sample: 47%) and the service sector (28% and 35% respectively). They involved mainly targets belonging to the same sectors (manufacturing: 40% and 33% respectively; services: 36% and 48% respectively). The

data on acquirer size is quite dispersed in both the population and the sample, with a similar mean of total assets (USD 50 billion). The mean deal value is USD 432 million for the population and USD 630 million for the sample, but this data is only available for 43% of deals (whole population and sample).

3.2 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. This variable presents the advantage of capturing the differences that may exist between domestic and cross-border acquisitions, as outlined above, addressing the lack of research comparing both types of transactions (Galavotti et al., 2017).

The independent variable, *Reputation*, is the acquiring firm's reputation. We used the RepTrack™ Pulse measure developed by Ponzi, Fombrun, and Gardberg (2011) and provided by the Reputation Institute, the world's leading reputation management consultancy. The score is based on 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 years, 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. The participants are asked about their perceptions of the firm in their local language on a 7-point Likert scale. The reputation score of each firm is then computed as the mean score for all respondents in the firm's home country. The final score was converted to a 0-100 scale and adjusted statistically to allow cross-industry and cross-country comparisons. The score is only available for the largest listed MNEs in each country.

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

The moderating variable, *International experiential knowledge*, is the number of CBAs conducted by the acquirer over the 10 years prior to the deal in question. We collected the information on CBAs conducted by each acquirer from the Zephyr database. Our choice of a 10-year period can be justified from an organizational learning perspective (Chao, 2018). As a matter of fact, time “depreciates acquisition experience” (Meschi and Métais, 2013, p. 469) through a forgetting process. Restricting the international experience to a limited timeframe 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 target, the deal, and the home countries of the acquirer and the target. First, we used a set of variables covering the acquirer’s size and performance: *Domestic experience*, *Total assets*, *Operating profit margin*, and *Foreign income*. Second, we included the control variable *Diversification* to account for relatedness between the acquirer and the target (Villalonga and McGahan, 2005). Third, we included controls for the target firms: *Target service firm* and *Target high tech firm*, as previous studies have suggested that CBA decisions may be influenced by the target’s sector (Chari and Chang, 2009; Cuypers, Ertug, and Hennart, 2015). Finally, we included country-level variables to control for the institutional environment (Lebedev et al., 2015; Li and Qian, 2013; Meyer, Estrin, Bhaumik, and Peng, 2009): *Investment profile acquirer* and *Investment profile target*. Indeed, the environment in which the signal (reputation) is transmitted matters (Connelly et al., 2011): better investor rights protection, both at home and abroad, reduces the risk associated with CBAs and increases a firm’s likelihood to invest abroad. The indicator assesses the risks associated with the investment, and includes three dimensions: contract viability/expropriation, profit repatriation, and

payment delays. Each of these three components was scored from 0 to 4 (a score of 4 corresponds to a very low risk, while a score of 0 indicates a very high risk). The indicator therefore has a score ranging between 0 and 12.

We provide detailed definitions and sources of the variables in Table 2.

[Insert Table 2 here]

3.3 Estimation method

The estimated equation is the following:

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

where Y_{ijt} is the *Cross-border acquisition* of firm j by firm i in year t , β , γ , δ , ε and θ are row vectors of coefficients, I_{it} represents the independent and moderating variables, X_{it} , W_{jt} and V_{ijt} are vectors of firm-level control variables, Z_{ct} is a vector of control variables related to the (acquiring and target) firms' countries c , α is the constant, and μ_{ijb} is the error term. As our dependent variable is dichotomous, and in order 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 CBAs over the last 10 years.

Nevertheless, to check the robustness of our results, we also ran a pooled cross-sectional logit regression model, which we estimated with the maximum likelihood method, clustering standard errors at the acquirer level. According to Greene (2004), this type of method is appropriate for the kind of study we conducted.

4. Results

Table 3 presents descriptive statistics and the correlation matrix for all the 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.

[Insert Table 3 here]

Table 4 presents the results of the fixed-effects logit regression models. McFadden's pseudo- R^2 range between 0.20 and 0.46. Model 1 presents the estimations with the control variables. Models 2 and 3 test Hypotheses 1 and 2 respectively. Model 4 tests Hypothesis 2 using an alternative measure of *International experiential knowledge*.

[Insert Table 4 here]

In Model 2, the positive estimated coefficient of *Reputation* ($p < 0.01$) and the negative estimated coefficient of the quadratic term *Reputation*Reputation* ($p < 0.01$) support the inverted U-shaped relationship between firm reputation and the likelihood of CBAs, as predicted by Hypothesis 1. To check whether the relation is curvilinear, we follow the three-step procedure suggested by Lind and Mehlum (2010). Table 5 presents the results of the

tests. First, the estimated coefficients of *Reputation* and *Reputation*Reputation* have the expected sign and are significant. Second, the slopes at both lower bound (0.23, $p < 0.01$) and upper bound (-0.18, $p < 0.01$) of the data range are sufficiently steep and with different directions. Third, the turning point (63.01) is well within the 32-87 data range. As shown by Table 5, the overall inverted U-shape tests in all the specifications are statistically significant ($p < 0.01$).

[Insert Table 5 here]

To understand the effects of this independent variable in more detail and because we have a nonlinear model (logit), we employ a delta method using the coefficients presented in Model 2 to compute the likelihood of any average firm in the dataset making a CBA. The mean predicted probability of engaging in a CBA is 0.68 ($p < 0.01$) if a firm's reputation is 63.01 (turning point) whereas it amounts to 0.35 ($p < 0.05$) and 0.23 ($p < 0.05$) if a firm's reputation is respectively 44 and 86. We graphically present these probabilities in Figure 3, which also confirms the inverse U-shaped relationship.

[Insert Figure 3 here]

Model 3 tests Hypothesis 2, according to which *International experiential knowledge* moderates the relationship between *Reputation* and *Cross-border acquisition*. The positive estimated coefficient of *Reputation*International experiential knowledge* ($p < 0.01$) and the negative estimated coefficient of the quadratic term *Reputation*Reputation*International experiential knowledge* ($p < 0.01$) support Hypothesis 2. The relationship between reputation and the likelihood of subsequent CBAs is greater for experienced than for inexperienced firms

at an intermediate level of reputation. To compute and graphically present the predicted probabilities of CBAs, 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, column 4, and the predicted probabilities in Figure 4. The mean predicted probability of engaging in a CBA is 0.71 ($p < 0.001$) at the turning point (63.01) for an experienced firm whereas it amounts to 0.16 ($p < 0.05$) for an inexperienced firm. As shown by the negative and significant estimated coefficient of *Reputation*Reputation*International experiential knowledge*, the slope is becoming steeper for experienced firms and flatter for inexperienced firms (Assaf and Tsionas, 2019), which is confirmed by the graphical representation (Haans, Pieters, and He, 2016). Interestingly, the curve for inexperienced firms flattens to such an extent that it flips from an inverted to a normal U-shape. This *shape-flip phenomenon* (Haans et al., 2016) further confirms the hypothesized moderation effect – the relationship between a firm’s reputation and its decision to make CBAs depends on its CBA experience.

[Insert Figure 4 here]

We tested the robustness of our results using pooled cross-sectional logit regression models (Table 6). We included year fixed effects to control for temporal shocks. All results, including those that check the curvilinear relationship and the moderation effect, confirm our previous findings.

[Insert Table 6 here]

5. Discussion and conclusions

5.1 Theoretical contributions

The literature shows that MNEs conduct CBAs to exploit existing resources and/or seek new ones, but few studies have investigated the role of intangible resources in such decisions. The topic is nonetheless important, as these decisions occur in a context of uncertainty and information asymmetry. Our research is the first to assess the influence of reputation, a key intangible resource, on MNE decisions to enter foreign markets through CBAs. Our framework and findings offer several theoretical contributions.

First, we build on the recent literature on reputation (Bergh et al., 2014; Mukherjee et al., 2018; Parker, 2019; Petkova et al., 2014; Stevens and Makarius, 2015) to argue that reputation has a dual effect on firm decisions. On the one hand, our results confirm that the acquirer's reputation is a determinant of CBAs as a specific, internationally exploitable asset (Petkova et al., 2014, Zavyalova et al., 2016) and as a signal that mitigates information asymmetry (Stevens and Makarius, 2015). MNEs are less reluctant to make international acquisitions, even if they are risky, since their reputation gives them confidence in their ability to create value in an uncertain context (*reputational advantage effect*). Reputation counterbalances the liability of foreignness and signals to the market the firm's ability to seize new market opportunities (Hitt et al., 2001). On the other hand, our results also show that a good reputation entails high expectations from local and foreign stakeholders that discourage firms from engaging in high-risk, uncertain CBAs (*reputation preservation strategy*). To preserve their hard-earned reputation, companies may prefer caution, especially when their stakeholders have high expectations (Haleblian et al., 2017; Parker et al., 2019; Petkova et al., 2014). CBAs are complex, and therefore risky. When CBAs fail, stakeholder disappointment can damage the firm's reputation. In this case, the reputational risk may outweigh the

potential gains from CBAs. Our findings on the influence of reputation on CBAs are novel and align with the argument of Mukherjee et al. (2018) that “reputation may serve as a catalyst, blank slate or hindrance” (p. 94) for international expansion.

Second, we demonstrate that international experiential knowledge, a central intangible resource in internationalization theories, plays a key role in the relationship between reputation and CBA decisions by reinforcing the above-mentioned effects. Experience and a good reputation enable firms to reduce the liability of foreignness and the risks associated with information asymmetry, thereby increasing the likelihood of undertaking CBAs. Our findings therefore confirm that intangible assets can help companies to overcome both the liability of foreignness (Wu and Salomon, 2016, 2017; Zaheer, 1995) and information asymmetry (Malhotra and Gaur, 2014; Mukherjee et al., 2018; Reuer and Ragozzino, 2014; Stevens and Makarius, 2015). At the same time, experienced firms are more aware of the difficulties of such operations, and the risk such decisions involve for their reputation. Our results confirm that the impact of reputation on CBA decisions (*reputational advantage* and *reputation preservation* effects) is reinforced by the knowledge acquired during CBA experiences. International experiential knowledge combined with reputation helps companies overcome the liability of foreignness and the costs of foreign market entry. In other words, experienced firms are better able to leverage their reputation to expand internationally through CBAs. Conversely, the relationship between reputation and CBA likelihood is significantly weaker for inexperienced firms. Such firms are less able to assess the risks and costs associated with CBAs (Galavotti et al., 2017) or to translate their reputation into an advantage for such strategic moves. A lack of international experiential knowledge combined with an intermediate level of reputation results in a very low likelihood of CBAs. In such a situation, the *reputation preservation effect* dominates, and firms tend to refrain from high-risk strategies. Our finding that international experiential knowledge interacts with another

intangible resource is intriguing and may explain the contrasting results of previous studies on the influence of international experience (Galavotti et al., 2017; Malhotra and Gaur, 2014).

In sum, we propose a model and latent mechanisms to explain the influence of two key intangible assets on strategic decisions regarding international expansion, thus contributing to several literature streams. First, we fill a gap in the strategy literature (Pfarrer et al., 2010) by providing useful insights into the importance of intangible resources and their impact on strategic decisions. Second, we extend the IB literature on the determinants of internationalization and market entry modes, and on the specific role of intangible resources. The IB literature has widely acknowledged the key role of intangible assets in reducing the risk of foreign market entry, but has neglected the role of reputation (Mukherjee et al., 2021; Stevens and Makarius, 2015). Our research fills this gap and adds to the emerging literature on the role of reputation in entry mode decisions and CBA activities. Finally, our research complements the growing literature on the influence of reputation on firm decisions (Stevens and Makarius, 2015; Parker et al., 2019). In particular, we support the nuanced view of reputation advanced in the literature.

5.2 Managerial implications

Our research offers useful implications for companies that wish to expand their business internationally, providing them with a better understanding of the way corporate reputation shapes their strategies, especially those regarding foreign market entry. First, it suggests that reputation is both an efficient resource and signal that MNEs can use to overcome the risks and costs of operating in an uncertain environment. Managers can leverage reputation to develop internationally but also to convince stakeholders about the appropriateness of their strategy. As Stevens and Makarius (2015, p. 267) correctly pointed out, “reputation may serve

as a ‘lubricant’ that reduces the friction” generated by the entry into a foreign market. Beyond the simple decision to expand internationally, reputation may also affect the location choice (Stevens and Makarius, 2015) or the market entry mode (Mukherjee et al., 2021) of such a strategic move. Reputation could incite (*reputational advantage effect*) as well as hinder (*reputation preservation effect*) managers in undertaking CBAs in risky environments or markets, their choice being guided by the tradeoff between their firm’s level of reputation and the risk associated with the planned strategy.

Second, in providing a nuanced view of the role of reputation and its combined effect with experiential knowledge, we also improve awareness about the heterogeneity of a firm’s resources (Peteraf, 1993) and the antecedents of managerial decisions, something that is necessary for making informed decisions. Indeed, our results are consistent with the recent theoretical propositions of Parker et al. (2019), who suggest that managers’ perceptions of their latitude of actions (*managerial discretion*) are affected by the firm’s reputation. For example, managers may be reluctant to conduct a CBA because they feel that it might damage their firm’s reputation, especially if they have little experience of such strategic moves. Awareness of the relationship between reputation and latitude of action may inform managers’ decision-making and help them overcome their initial reluctance. As argued by Parker et al. (2019, p. 256) “to the extent managers can better understand the forces governing their actions, they might better position their firms in the market and achieve a more optimal degree of strategic fit.” In sum, our study should encourage managers to value reputation and intangible assets more generally, taking into consideration the impact they may have on decision-making processes.

5.3 Limitations and research avenues

The limitations of our research, as well as the novelty of the topic, open up new opportunities 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. Saxton and Dollinger (2004) show that target reputation and acquisition benefits are positively related, but the literature has not investigated to what extent CBA decisions are driven by (intangible) resource-picking strategies. This is all the more important in so far as information asymmetry is reciprocal – both the acquirer and the target may act opportunistically (Stevens and Makarius, 2015). Second, our models provide an explanation for the *decision* to enter foreign markets. However, reputation may also have an influence on CBA *performance*, as our argument is that reputation helps to overcome the liability of foreignness and information asymmetry. As such, it favors integration into local networks and access to local resources, as well as guaranteeing better treatment by local authorities. Future research could therefore investigate how reputation may confer a sustainable competitive advantage. Third, a useful avenue for further study would be to examine the differential CBA behavior from emerging market MNEs, as such firms may lack international experience and reputation that they could leverage in developed markets. Mukherjee et al. (2021) argue that reputation is important for the international expansion of emerging market firms: they propose a typology relating reputation resource types and motives to the choices of market entry mode by these firms. Interesting results could emerge from further researching this issue, both theoretically and empirically. A fourth research avenue could consider the different dimensions of reputation. Extant literature has differentiated several forms of reputation (Parker et al., 2019), emphasized one type of reputation (for example, reputation for trustworthiness, Stevens and Makarius, 2015) and introduced other constructs related to reputation (for example, reputation credibility and distance, Stevens et al., 2015). Additional

research could adopt other measures of reputation, whether quantitative or qualitative, to further advance our knowledge of the impact of reputation on strategic decisions.

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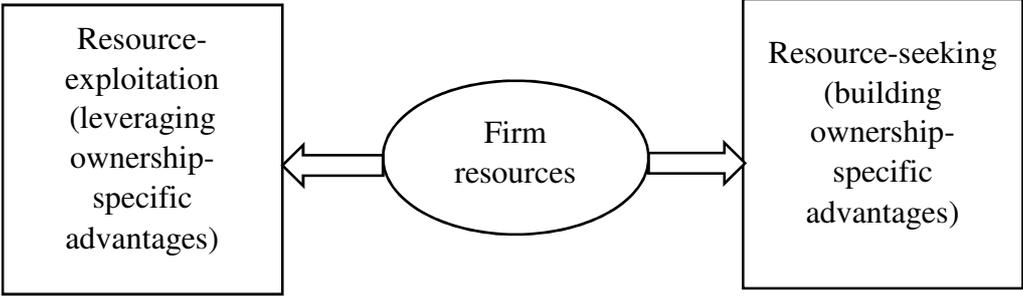
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Figure 1 Main strategic motives for cross-border M&As



Source: Authors' elaboration based on the literature.

Figure 2 Research model

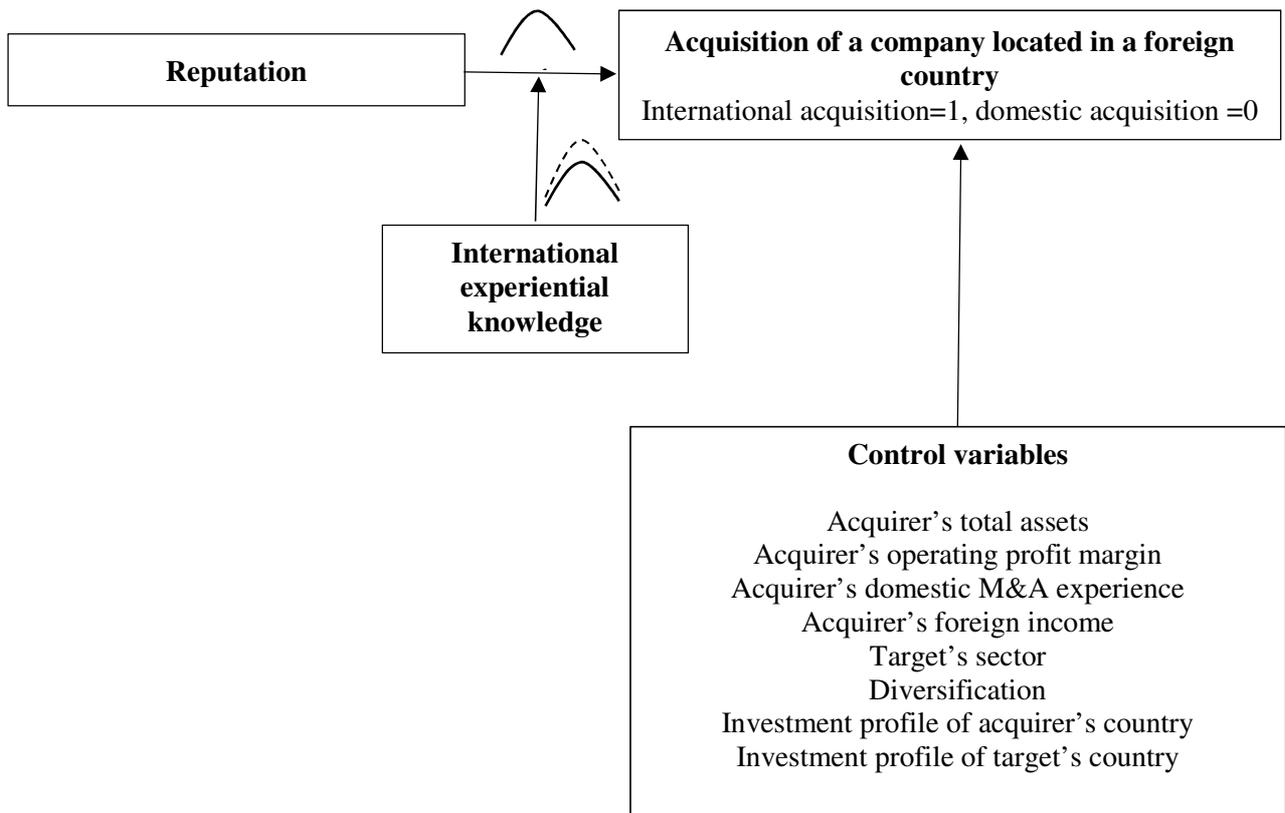


Table 1 Review of representative articles linking reputation, international experience and CBAs

Authors	Theme	Study type	Main findings
<i>Reputation and foreign entry strategy</i>			
Stevens et al. (2015)	Role of reputation in the service multinationals' foreign entry strategies	Conceptual	Reputation for behavioral intent of service multinationals reduces transaction costs and impacts entry mode and partner selection.
Stevens and Makarius (2015)	Role of reputation in foreign entry strategy	Conceptual	Reputation for trustworthiness lowers transaction costs and acts as an important factor in foreign entry mode decisions.
Haleblian et al. (2017)	Differential acquisition behaviors of high-reputation firms	Empirical	High-reputation firms make more acquisitions, more unrelated acquisitions, but investors respond negatively to the mean acquisition announcement of high-reputation-firms.
Mukherjee et al. (2018)	Role of Business Groups reputation in their affiliates' internationalization	Conceptual	Business Groups vary in their reputation prominence and quality, and this impacts the geographic scope and location choices of their affiliates.
Mukherjee et al. (2021)	Role of emerging market firm reputation in internationalization strategies	Conceptual	Reputational resources play an important role in emerging market firm location choices and entry mode strategies. The authors provide a typology linking reputation resource types, reputation motives, and internationalization strategies.
<i>International experience and CBAs</i>			
Collins et al. (2009)	Role of acquisition experience in subsequent CBAs	Empirical	Prior experience with domestic and international acquisitions is positively related to subsequent CBAs. Acquisition experience within a host country has a stronger influence on the likelihood of acquisitions in the same country.
Galavotti et al. (2017)	Role of prior acquisition experience in subsequent CBAs	Empirical	The relationship between domestic acquisition experience and the likelihood of subsequent CBAs is U-shaped whereas there is an inverted U-shape relationship between prior CBA experience and the likelihood of subsequent CBAs.
Chao (2018)	Influence of the quality, the pattern, and the context of acquisition experience on acquirer performance	Empirical	The velocity of acquisition experience during the 10 years preceding the focal year significantly impacts acquirer's performance.
Scalera et al. (2020)	Influence of comparative ownership advantage and information asymmetry on ownership strategies in knowledge intensive CBAs	Empirical	Previous host-country-related experience reduces the information asymmetry faced by Chinese and Indian MNEs and increases their share of equity in CBAs.

Articles are listed in the chronological order.

Table 2 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 CBAs 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 income of the acquirer	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
Target service firm	Dummy variable, equal to 1 if the target is a service firm, 0 otherwise.	Authors' construction based on Chari and Chang (2009).
Target high tech firm	Dummy variable, equal to 1 if the target is a high tech firm, 0 otherwise.	Authors' construction based on the definition by the United States Bureau of Labor Statistics and provided by Hecker (2005).
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 3 Descriptive statistics and correlation matrix

Variable	Mean	S. d.	1	2	3	4	5	6	7	9	10	11	12
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. Diversification	0.57	0.50	-0.05	-0.08*	0.15*	0.03	-0.09*	-0.06	0.10*				
9. Target service firm	0.63	0.48	-0.20*	-0.23*	0.13*	0.30*	-0.07*	0.07*	-0.07*	0.21*			
10. Target high tech firm	0.46	0.50	-0.11*	-0.05	0.01	0.35*	0.20*	0.28*	-0.13*	0.06	0.30*		
11. Investment profile acquirer	10.40	1.58	-0.24*	0.12*	-0.15*	0.16*	0.28*	0.25*	-0.19*	-0.06	0.04	0.24*	
12. Investment profile target	10.40	1.81	-0.21*	0.14*	-0.09	0.10*	0.17*	0.22	-0.09*	-0.08	0.13*	0.30*	0.33*

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

Table 4 Fixed-effects logit regression models

	Dependent variable: cross-border acquisition			
	(1)	(2)	(3)	(4)
Domestic experience	-0.024***	-0.023***	-0.044***	-1.343***
	(0.008)	(0.008)	(0.010)	(0.469)
Total assets	-0.086	-0.012	-0.126	-0.099
	(0.096)	(0.100)	(0.113)	(0.106)
Operating profit margin	0.019	0.022	0.012	0.032**
	(0.014)	(0.015)	(0.016)	(0.015)
Foreign income	0.001	0.001	-0.005	-0.001
	(0.003)	(0.003)	(0.004)	(0.003)
Diversification	0.286	0.323	0.183	0.178
	(0.226)	(0.229)	(0.287)	(0.238)
Target service firm	-0.985***	-1.216***	-1.463***	-1.364***
	(0.255)	(0.272)	(0.342)	(0.282)
Target high tech firm	0.649***	0.590***	0.928***	0.219
	(0.233)	(0.239)	(0.292)	(0.239)
Investment profile acquirer	-0.456***	-0.448***	-0.378***	-0.551***
	(0.084)	(0.086)	(0.112)	(0.092)
Investment profile target	-0.160**	-0.161**	-0.239**	-0.090
	(0.067)	(0.068)	(0.093)	(0.072)
Reputation		0.464***	-0.902***	-0.991
		(0.152)	(0.330)	(0.671)
Reputation*Reputation		-0.004***	0.006***	0.007
		(0.001)	(0.002)	(0.005)
International experiential knowledge			-4.365***	-48.765**
			(0.995)	(22.834)
Reputation*International experiential knowledge			0.133***	1.559**
			(0.030)	(0.693)
Reputation*Reputation*International experiential knowledge			-0.001***	-0.012**
			(0.000)	(0.005)
Observations	622	622	622	622
Mc Fadden's Pseudo-R2	0.202***	0.226***	0.457***	0.275***
Log likelihood	-193.776	-188.003	-131.830	-176.194
LR X2	98.302	109.846	222.194	133.465

* p<0.10, ** p<0.05, *** p<0.01. Standard errors between parentheses.

Model 1: controls only

Model 2: test of Hypothesis 1

Model 3: test of Hypothesis 2 with *International experiential knowledge* level

Model 4: test of Hypothesis 2 with *International experiential knowledge* as a dichotomous variable

Table 5 Tests of an inversely U-shaped relationship between reputation and CBA

Estimated extreme point	63.01
95% confidence interval (Fieller method)	(56.22, 66.87)
Slope at lower bound	0.228
t-value	2.914
P> t	0.001
Slope at upper bound	-0.175
t-value	-3.412
P> t	0.000
Overall test	
t-value	2.91
P> t	0.002

Note: Lind and Mehlum (2010) tests based on the general framework developed by Sasabuchi (1980).

Table 6 Pooled cross-sectional logit regression models

	Dependent variable: cross-border acquisition			
	(1)	(2)	(3)	(4)
Domestic experience	-0.015**	-0.015**	-0.021***	-0.814***
	(0.007)	(0.007)	(0.005)	(0.296)
Total assets	0.027	0.019	-0.096	-0.010
	(0.075)	(0.075)	(0.077)	(0.081)
Operating profit margin	0.002	0.001	-0.001	-0.000
	(0.012)	(0.013)	(0.011)	(0.013)
Foreign income	0.002	0.002	0.001	0.002
	(0.002)	(0.003)	(0.001)	(0.002)
Diversification	-0.134	-0.122	-0.093	-0.132
	(0.226)	(0.226)	(0.192)	(0.221)
Target service firm	-0.402**	-0.496**	-0.712***	-0.526**
	(0.200)	(0.204)	(0.201)	(0.211)
Target high tech firm	0.259	0.239	0.377	-0.033
	(0.216)	(0.227)	(0.238)	(0.211)
Investment profile acquirer	-0.148*	-0.151*	-0.060	-0.164**
	(0.084)	(0.081)	(0.076)	(0.083)
Investment profile target	-0.149***	-0.152***	-0.190***	-0.121**
	(0.057)	(0.057)	(0.066)	(0.059)
Reputation		0.302**	-0.363*	-0.687*
		(0.129)	(0.200)	(0.405)
Reputation*Reputation		-0.002**	0.002*	0.005*
		(0.001)	(0.001)	(0.003)
International experiential knowledge			-2.339***	-32.272**
			(0.597)	(14.038)
Reputation*International experiential knowledge			0.071***	1.049**
			(0.018)	(0.418)
Reputation*Reputation*International experiential knowledge			-0.001***	-0.008***
			(0.000)	(0.003)
Constant	4.382**	-5.633	17.602**	25.972*
	(1.493)	(4.509)	(7.201)	(13.386)
Year dummies	Yes	Yes	Yes	Yes
Observations	869	869	869	869
Mc Fadden's Pseudo-R2	0.144***	0.165***	0.330***	0.196***
Log likelihood	-496.288	-484.301	-388.392	-465.980
LR X2	39.375	46.006	97.650	61.118

* p<0.10, ** p<0.05, *** p<0.01. Standard errors clustered at the acquirer level between parentheses.

Model 1: controls only

Model 2: test of Hypothesis 1

Model 3: test of Hypothesis 2 with *International experiential knowledge* level

Model 4: test of Hypothesis 2 with *International experiential knowledge* as a dichotomous variable

Figure 3 Predicted CBA probabilities

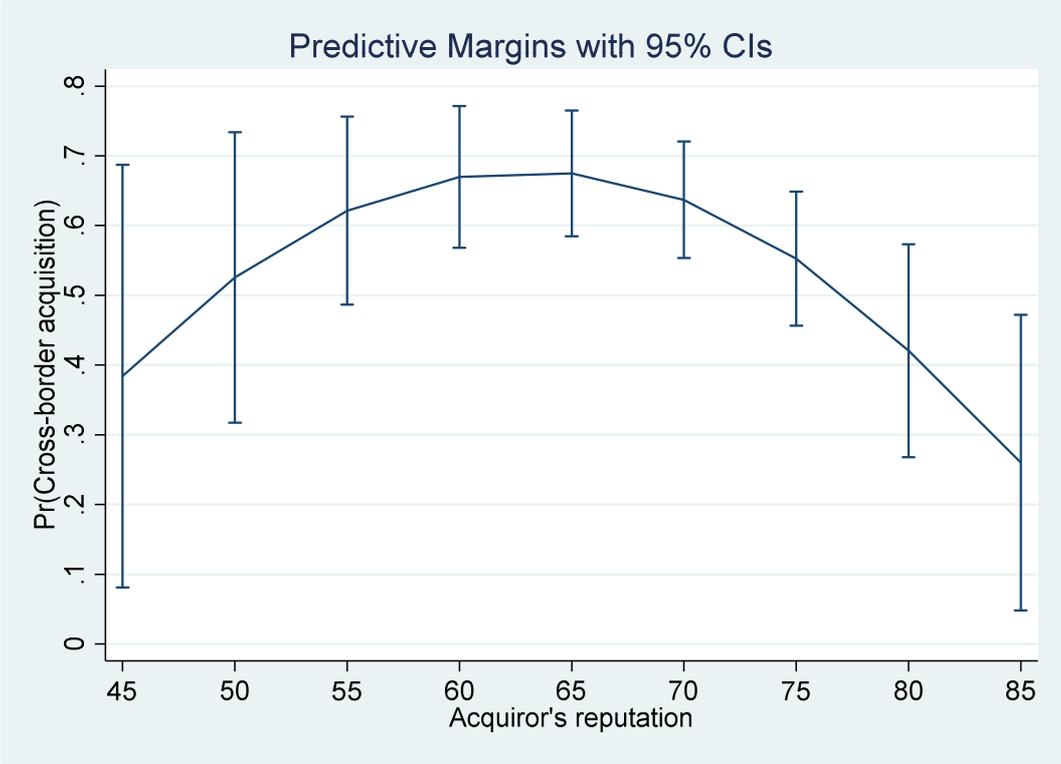
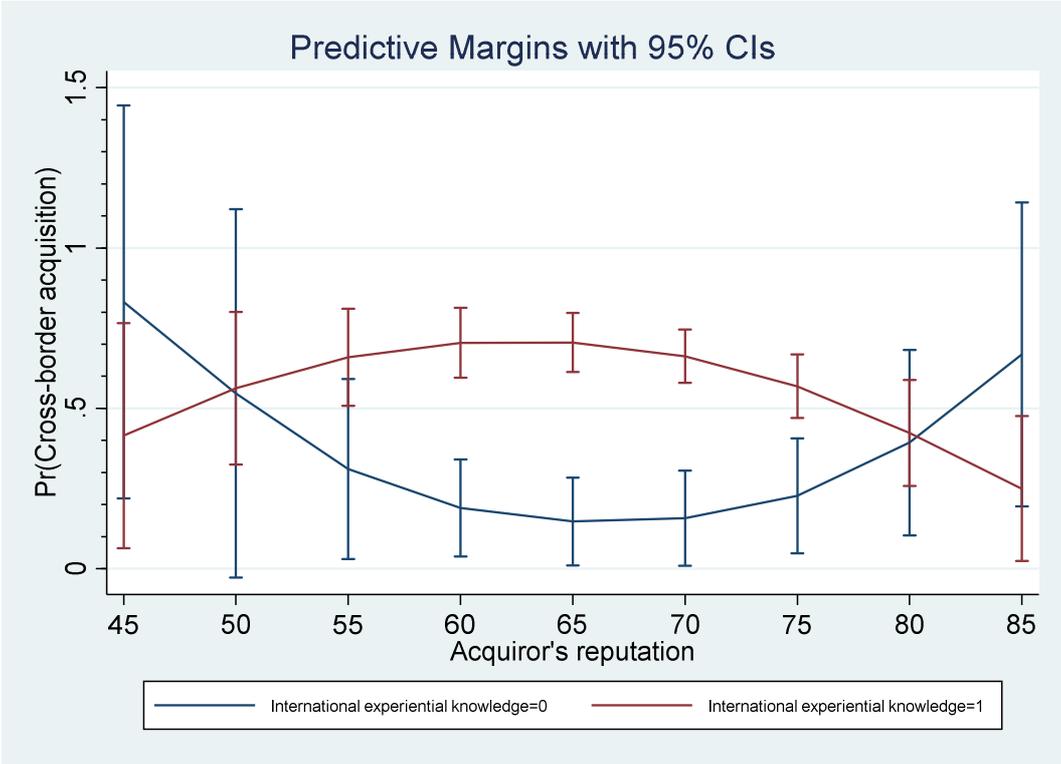


Figure 4 Predicted CBA probabilities with and without international experiential knowledge



Appendix 1 Motives of major CBAs conducted by European and US multinationals

Acquirer (nationality)	Target (nationality)	Verbatims	Motives
Novartis (Switzerland) <i>Reputation index: 53.20</i> <i>Number of CBAs: 11</i>	GlaxoSmithKline's oncology products unit (United Kingdom)	"An ageing population will lead to additional healthcare spending, but governments around the world are going to have difficulty funding these needs. So we need to have market-leading businesses with global scale that can compete in a tough pricing environment" (CEO Novartis, Financial Times, 23/04/2010). "The planned acquisition of GlaxoSmithKline's oncology products is expected to reinforce our already strong position in cancer treatments" (Annual Report Novartis, 2014, p. 30).	Resource-exploitation
Sanofi-Aventis (France) <i>Reputation index: 64.50</i> <i>Number of CBAs: 9</i>	Genzyme (United States)	"Although the opportunities [for research collaborations] are global, it is still true today that the most numerous opportunities are in the U.S" (CEO Sanofi-Aventis, The Wall Street Journal, 17/02/2014). "The acquisition of Genzyme in April 2011 brought to the Group specific expertise in rare diseases, a sector where there are still many unmet needs, and expanded Sanofi's presence in the biotechnology sector" (Annual Report Sanofi-Aventis, 2011, p. 31).	Resource-seeking
Volkswagen (Germany) <i>Reputation index: 81.80</i> <i>Number of CBAs: 2</i>	Scania (Sweden)	"With its premium products, its strong market position and its technological expertise, Scania is a core element of the integrated commercial vehicles group that we intend to accomplish under the umbrella of the Volkswagen Group" (CEO Volkswagen, Financial Times, 22/02/2014). "Volkswagen aims to create a leading commercial vehicles group through close operational cooperation between Scania, MAN and Volkswagen Commercial Vehicles (Annual Report Volkswagen, 2014, p. 53).	Resource-exploitation
Encana (Canada) <i>Reputation index: 58.88</i> <i>Number of CBAs: 0</i>	Athlon Energy (United States)	"An oil and gas company in my view at least has to always pay attention to its portfolio. So it's something you're never done with and it's something we'll continue to look at" (CEO Encana, The Canadian Press, 29/09/2014). "The year was also marked by the transformation of Encana's portfolio (...), coupled with major acquisitions in the top two oil plays in the U.S.; the Eagle Ford and the Permian Basin [Athlon Energy]. These transactions have delivered a balanced liquids and natural gas portfolio and have made Encana more resilient to dynamic market conditions" (Chairman of the Board, Annual Report Encana, 2014, p. 1).	Resource-exploitation Resource-seeking
Heineken (Netherlands) <i>Reputation index: 71.80</i> <i>Number of CBAs: 28</i>	FEMSA Cerveza (Mexico)	"It is really a transformational deal for Heineken (...). It opens up a very big opportunity for us in the Americas" (CEO Heineken, The Wall Street Journal, 12/01/2010). "The acquisition provides access to the Latin American market, cost synergies to be achieved through economies of scale due to the increased size of the operations and deferred taxes and assembled workforce will mostly be between Mexico and the USA. Additionally, the acquisition secures the distribution of FEMSA products in the USA, previously arranged via a ten-years license agreement" (Annual Report Heineken, 2014, p. 64).	Resource-exploitation

Fortis (Canada) <i>Reputation index: 51.78</i> <i>Number of CBAs: 2</i>	UNS Energy (United States)	"These are significant regulated utility assets located in the U.S. southwest, a region experiencing above-average economic growth" (President and CEO Fortis, The Wall Street Journal, 12/12/2013). "The acquisition of UNS Energy is consistent with our strategy of investing in high-quality regulated utility assets in Canada and the United States (...) The acquisition of UNS Energy will further mitigate business risk for Fortis by enhancing the geographic diversification of our regulated assets" (Chair of the Board; President and CEO, Annual Report Fortis, 2013, p. 3).	Resource-exploitation
Orange (France) <i>Reputation index: 59.60</i> <i>Number of CBAs: 16</i>	Jazztel (United Kingdom, Spain)	"The new company will be the incontestable number two in fixed services and third in mobile behind Vodafone, but we think we'll be able to take second place pretty quickly" (Reuters News, 16/11/2014). "In Spain, the Group considerably expanded its fiber network in 2015 (6.8 million connectable homes) thanks to the acquisition of Jazztel, thus leading to the creation of the second largest fixed broadband operator in the country. (...) This extension will also help strengthen the fixed-mobile convergence strategy in this country" (Annual Report Orange, p. 29).	Resource-exploitation
Solvay (Belgium) <i>Reputation index: 68.60</i> <i>Number of CBAs: 7</i>	Rhodia (France)	"We see the possibility of doubling our [earnings] to almost €2 billion and creating a major global chemicals platform under the banner of Solvay" (CEO Solvay, The Wall Street Journal, 05/04/2011). "The successful friendly tender offer for Rhodia has doubled the size of the Group, enriched its portfolio and extended its frontiers. (...) What emerges is an even more powerful Solvay, with the critical mass and strategic assets to approach with confidence the troubled times ahead in the global economy (Chairman of the Executive Committee; Chairman of the Board of Directors, Annual Report Solvay, 2011, p. 3 and 4).	Resource-seeking
Vinci (France) <i>Reputation index: 62.70</i> <i>Number of CBAs: 2</i>	Ana Aeroportos de Portugal (Portugal)	"ANA constitutes a set of high-quality airport platforms with more than 30 million passengers, of which around 80% internationally, welcomed in 2012, and traffic growth of over 4% on average over the past 10 years. (...) The Lisbon 'hub' is an important asset thanks to its strategic position in high growth destinations (Brazil, Portuguese-speaking Africa - Angola and Mozambique)" (Boursier.com, 21/03/2013). "In Concessions, our drive to speed up our development in airport infrastructure management crystallised with the acquisition of ANA, the concession company for Portugal's 10 airports. This move has quadrupled VINCI Airports' revenue" (Chairman and CEO, Annual Report Vinci, 2013, p. 16).	Resource-exploitation
Infineon Technologies (Germany) <i>Reputation index: 65.40</i> <i>Number of CBAs: 2</i>	International Rectifier (United States)	"With their great knowledge of specific customer needs and their application understanding, International Rectifier employees will contribute to Infineon's strategic development from product thinking to system understanding and system solutions" (CEO Infineon, The New York Times, 20/08/2014). "The technologies and products offered by International Rectifier largely complement Infineon's range of technologies and products. Combining the research and development activities and technologies of the two Groups will enable us to achieve continued high levels	Resource-exploitation Resource-seeking

		of growth. Similarly, the sales and regional strongholds of International Rectifier complement Infineon's - a factor that will also help maintain the pace of growth" (Annual Report Infineon Technologies, 2014, p. 27).	
Archer Daniels Midland (United States) <i>Reputation index: 61.96</i> <i>Number of CBAs: 7</i>	WILD Flavors (Switzerland)	"Ingredients are a higher-margin, higher growth type of business. (...) The commodity business has its ups and downs" (CEO Archer Daniels Midland, The Wall Street Journal, 08/07/2014). "With ADM's global origination, transportation, processing and distribution network as our foundation, we significantly increased our capabilities and our existing portfolio of specialty-ingredients businesses (...) through the acquisition of WILD Flavors, one of the world's leading suppliers of natural ingredients to the food and beverage industry. WILD's technical and product-development capabilities, along with its flavor and ingredient systems, enable ADM to offer our food customers a wide range of solutions that address taste, texture, nutrition and function" (CEO and President; Chairman of the Board of Directors, Annual Report Archer Daniels Midland, 2014, p. 3).	Resource-exploitation Resource-seeking
AstraZeneca (United Kingdom) <i>Reputation index: 64.49</i> <i>Number of CBAs: 10</i>	Almirall's respiratory franchise business (Spain)	"Chronic respiratory disease affects hundreds of millions of people around the world. (...) By combining our innovative portfolios and leveraging AstraZeneca's global scientific and commercial capabilities, we will strengthen our ability to address the entire spectrum of care" (CEO AstraZeneca, The New York Times, 30/07/2014). "We strengthened our own capabilities by acquiring the rights to Almirall's respiratory business, and inhalation device subsidiary, which will help us develop the next generation of devices that meet patient needs" (CEO, Annual Report AstraZeneca, 2014, p. 9).	Resource-exploitation Resource-seeking

Reputation index: RepTrack™ index, year prior to the acquisition.

Number of CBAs: Number of CBAs conducted by the acquirer over the 10 years before the deal analyzed.

Note: The 12 selected CBAs represent the most important deals in value completed by European and US multinationals between 2010 and 2015. Information on underlying motives was extracted from the economic press (based on information available on Factiva 7 days before and after the CBA announcement) and the acquirers' annual reports.