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Cultural Distance and Post-Acquisition Performance: The Role of Absorptive Capacity

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Cultural Distance and Post-Acquisition Performance: The Role of Absorptive Capacity

Abstract

Purpose: Cultural distance can be a challenge for internationalization. However, in some instances, it is possible that different cultures could represent a benefit for MNEs from emerging contexts. Drawing on the knowledge-based view (KBV), we propose that greater cultural distances lead to benefits for multinationals seeking to absorb new knowledge overseas.

Design/methodology/approach: We performed OLS regressions with moderation tests over a database containing 101 cross-border acquisitions to test our hypotheses. The acquisitions were performed by Brazilian firms between 1995 and 2015, targeting 24 host countries.

Findings: Our results indicate that cultural distance positively affects the firm’s post-acquisition performance and that absorptive capacity moderates these results, improving the positive effect. The study suggests that cultural diversity is an asset for the multinationals in question.

Practical implications: When deciding to invest in a foreign country, managers should consider this cultural diversity as one more value creation driver, especially if the firm has well-developed innovation capabilities.

Originality: Our findings contribute to the international business literature providing further evidence that emerging markets multinationals can create value in acquisitions through the firm’s abilities to exploit cultural asymmetries. Thus, we also emphasize that absorptive capacity plays a strategic role in multinational’s international strategies.

Keywords Cultural Distance, International Acquisitions, Post-acquisition Performance, Knowledge-Based View, Absorptive Capacity.

1 Introduction

A country's national culture determines the socially accepted standards of behavior in that location, including the required commercial behavior (Dikova and Sahib, 2013). In international acquisitions, multinationals must assimilate new commercial and management practices from their subsidiaries located in different cultures (Dikova and Sahib, 2013). This diversity of cultural knowledge can stimulate organizational innovation and bring benefits to the business, at the same time that it requires adaptation and integration skills from the acquirer (Reus and Lamont, 2009). Could the benefits of culturally different environments outweigh the challenges associated with them? Additionally, what could help to transform the challenges into benefits?

The cultural perspective received considerable attention in IB studies after the mid-1980s (Vaara *et al.*, 2012). Since then, two theoretical currents have been widely debated in the literature. On the one hand, it is argued that different cultural configurations can represent a challenge for an effective allocation of firm resources, incurring transaction costs and affecting its financial performance (Buckley and Munjal, 2017; Rienda *et al.*, 2019). On the other hand, from the knowledge-based perspective, cultural asymmetries are favorable for the organization's learning since they add value as cultural differences are converted into new knowledge (Sarala and Vaara, 2010; Stahl and Tung, 2015). In addition, the literature on the effects of cultural distance on international acquisitions' performance still presents conflicting and contradictory results, especially in emerging countries as the home context. In part, emerging markets are known in the literature for their institutional limitations (Aybar and Ficici, 2009; Cuervo-Cazurra, 2016). Trying to circumvent this problem, emerging market multinationals (EMNE) seek abroad resources unavailable in their domestic market to innovate and catch up with international competitors (Luo and Tung, 2007). New and different knowledge can leverage the capabilities of the EMNE, including new cultural knowledge. Furthermore, a recent meta-analysis of cultural distance effects over 153 studies showed controversial effects on firms' performance when considering home countries like India, Brazil, and China, which raises the necessity of a closer look into their contexts (Beugelsdijk *et al.*, 2018).

In this paper, we follow the cultural distance positive lens. We argue that through its subsidiary, the multinational gains access to knowledge assets rooted in the national culture of the host country (Zaheer, Schomaker and Nachum, 2012). Although previous studies reinforce the positive effect of cultural distance for international business (Stahl and Tung, 2015), emerging countries' effects are neglected. Additionally, the impacts of the interaction between cultural distance and firms' capabilities remain unexplored. Along these lines, we argue that cross-cultural acquisitions combined with absorptive capacity enhance the ability to understand, integrate, and apply knowledge to create real financial value, helping firms to overcome liabilities (Li and Fleury, 2020). This innovative capability improves communication adaptation and enables the firm to reach for the benefits of asymmetric cultures (Li, Li and Wang, 2016). Thus, our objective is to assess the moderating role of absorptive capacity on post-acquisition performance over the cultural asymmetries during international acquisitions. To do so, we performed OLS regressions with moderation tests on 101 acquisitions from Brazilian firms in 24 countries in the 1995-2015 period. Given Brazil's emergingness and economic size (Ferreira *et al.*, 2017), we choose Brazilian multinationals as the focus of our research. Analyzing multinationals from an emerging market is vital because there is a need for extending the knowledge concerning emerging markets in the literature (Lebedev *et al.*, 2015) and their investments abroad (Outreville, 2018). Moreover, as a home country, Brazil has presented unclear results on the effects of cultural distance (Beugelsdijk *et al.*, 2018), so we aim to clarify this impact.

This study brings two main contributions to extant literature. First, our findings contribute to IB literature by helping close the gap of whether EMNEs could financially benefit from cross-cultural investments (Stahl *et al.*, 2016). The country of origin literature often suggests that the country’s historical background influences the firm choices as the firm seeks a familiar environment to reduce perceived risks and unintended cultural effects (Zaheer, 1995; Beugelsdijk *et al.*, 2018). For instance, as Latin American countries share a common paternalist cultural root (Aguinis *et al.*, 2020), it would make sense for Latin American firms to engage in south-south international acquisitions (Moura *et al.*, 2019). However, from a knowledge-based view, the asymmetry of knowledge is what creates learning opportunities. Thus, we contribute by showing that the greater the cultural distance, the more the acquirer can benefit. We propose that value creation is in the differences that generate new information for learning, not in the similarities that contribute to redundancy. We developed further evidence to support the positive effect of cultural differences from a firm-level perspective.

Second, it contributes by bringing forth the role of a firm’s absorptive capacity in a cross-cultural environment. The firm’s capabilities are commonly analyzed as an alternative to overcome liabilities overseas (Li, Li and Wang, 2016). This study shows evidence of the indirect influence of absorptive capacity on the acquisition’s financial performance and how cultural knowledge asymmetries enrich value creation. We adopt Zahra and George’s (2002) construct of absorptive capacity, which is defined as the firm’s ability to exploit knowledge and resources to improve or create new competencies. Thus, the firm’s absorptive capacity contributes to the build and transfer of knowledge, as well as the interaction between partners, other firms, and the environment in which the firm operates (Apriliyanti and Alon, 2017). Our study provides a more fine-grained view of how absorptive capacity is moderated by cultural differences considering mergers and acquisitions from emerging markets.

2 Knowledge-based view

Knowledge-based view (KBV) is rooted in the resource-based view (RBV) (Barney, 1991). RBV proposes that organizations’ long-term performance and competitive advantage are related to inter-firm knowledge asymmetries (Zhou, Fey and Yildiz, 2020). KBV, in turn, focuses on the value of intangible organizational assets based on knowledge playing a central role in the perpetuation of the firm’s long-term results (Kiessling *et al.*, 2009). KBV emphasizes the flexibility of the market and its dynamism, posing firms as main actors on the transfer and integration of knowledge as they deal with the continuous global pressures for updating this knowledge (Kiessling *et al.*, 2009).

KBV advocates the strategic value of knowledge and how this intangible asset supports competitive advantage (Grant, 1996; Nakos, Dimitratos and Elbanna, 2019). In this regard, firms represent an organized mode to create and manage knowledge, doing it better than markets (Kogut and Zander, 1992, 1993). This advantage is because firms are organized in a way that supports learning flows (Kogut and Zander, 1992). Based on the progress of the firm’s learning process, “the cumulative knowledge of the firm provides options to expand in new but uncertain markets in the future” (Kogut and Zander, 1992, p. 383). The internal structures and routines in a firm make it possible to stimulate the process of creating, sharing, and recycling knowledge throughout individuals, departments, and among subsidiaries. However, knowledge is an intangible asset that is asymmetric, even between firms in the same industry. This asymmetry is one of the reasons why competitive advantages emerge (Barney, 1986). Thus, it is the access to external knowledge sources that enables this asset’s renewal, as

the exploration of new knowledge allows the firm to remain competitive, avoid obsolescence, and facilitate innovation (Geerts *et al.*, 2018).

One way to increase the firm's knowledge assets is by establishing international operations. Multinationals are seen as a great vehicle to expand the scope and the array of knowledge due to their geographical dispersion (Morris, Zhong and Makhija, 2015). Previous international business studies have deployed KBV to address knowledge transfer in acquisitions (Li, 2010; Sarala and Vaara, 2010), export performance (Bertrand, 2011), and the innovation performance of multinationals (Kotabe, Jiang and Murray, 2011; Wang and Han, 2011), for example. The firm's ability to absorb knowledge through a new acquisition can create a competitive advantage for the acquirer, gaining and incorporating strategic resources not existent in its domestic market (Luo and Tung, 2007). However, depending on the type of knowledge explored abroad, the firm might have to deal with some challenges in transferring and integrating new knowledge. For instance, in different cultures, global and local pressures can complicate or facilitate the knowledge absorption by the multinational (Santangelo and Phene, 2022).

3 Cultural distance

Culture can be defined as the collective programming of the mind that differentiates one group from another and shapes the individuals' and organizations' social behavior (Hofstede, 2001). It can be analyzed at different levels, in the individual, groups, organizations, or the country context. National culture, in its turn, has been related to behavior, attitude, and organizational results (Kirkman, Lowe and Gibson, 2006). Thus, cultural distance represents differences between national cultures and it is an essential factor in the face of internationalization (Beugelsdijk *et al.*, 2018). How firms adapt to local foreign rules might define their success or failure. This effect has been widely discussed over the years (Morosini, Shane and Singh, 1998; Berry, Guillén and Zhou, 2010). In international acquisitions, the relevance of cultural differences among nations can be seen in the formulation of a multinational's strategy of operating business cross-culturally.

Cultural aspects directly impact the firm's knowledge transfer potential and integration between firms. They influence the transaction costs that involve business across different cultures (Reus and Lamont, 2009), affecting its performance through its subsidiaries (Björkman, Stahl and Vaara, 2007). The higher the cultural distance between countries, the more significant is the difference between management practices, which may cause internal conflicts and affect the performance (Kogut and Singh, 1988; Ahammad and Glaister, 2011). Moreover, Popli *et al.* (2016) and Kale and Singh (2017) have found that culture can significantly constrain acquisition performance from emerging markets multinationals. Thus, the consensus among IB scholars is around the thought that cultural distance increases transaction costs (Beugelsdijk, McCann and Mudambi, 2010) and poses a liability of foreignness for multinationals (Zaheer, 1995).

However, scholars also acknowledge that cultural distance might bring opportunities to multinationals (Dellestrand and Kappen, 2012), although there are fewer studies in this regard. The argument is that subsidiaries have access to novel resources and may absorb new knowledge and practices into the multinational structures (Ciabuschi, Forsgren and Martín, 2011). Hence, different national contexts - reflected in national cultural differences - can provide unique learning opportunities (Vaara *et al.*, 2012; Stahl *et al.*, 2016) based on new routines and management practices. Moreover, it is well known that when the multinational can learn from the

host environment, the adaptation occurs faster (Morosini, Shane and Singh, 1998), accelerating the return on investment (Li and Fleury, 2020) and benefiting the parent firm.

Nelson and Winter (1982) proposed that the knowledge that constitutes a firm is developed throughout various routines. These routines change and evolve as new ones are incorporated, and less efficient ones are discarded. The firm's routines are not static, instead they are constantly in flux and evolving. The acquisition of a foreign firm can provide the multinational with new routines that can be used to improve the efficiency of its own operations. Cultural differences between countries provide scope for the acquisition of new routines and, consequently, the development of the firm's knowledge (Stahl and Tung, 2015). When the multinational enters an environment with more significant cultural differences, it finds new working methods, new customers, and new processes present in the acquired firms that can be used and disseminated in its structure (Li and Fleury, 2020). The same does not happen when the acquisition is performed in a culturally close country, where the routines would be much more similar to those the EMNE already has, representing redundant knowledge. The firm can benefit from absorbing new practices by transforming them into new knowledge and recycling internal knowledge (Cohen and Levinthal, 1989). Based on this perspective, we propose that:

Hypothesis 1: The greater the cultural distance between home and host countries, the greater the post-acquisition performance.

4 Absorptive capacity

Absorptive capacity is the firm's internal capacity to perceive value in knowledge, assimilate it, and apply it for commercial purposes (Cohen and Levinthal, 1990). This concept accompanies studies carried out under a knowledge-based view, proposing itself as a capacity that allows firms to recognize the value of knowledge and create new skills (Björkman, Stahl and Vaara, 2007). Absorptive capacity is often related to critical organizational issues regarding learning and innovation (Zhou, Fey and Yildiz, 2020).

In the IB field, the focus of research on absorptive capacity is on topics such as intra- and inter-organizational learning (Zhou and Li, 2012; Schleimer and Pedersen, 2014), knowledge transfer (Foss and Pedersen, 2002; Zhou, Fey and Yildiz, 2020), dynamic capacities (Björkman, Stahl and Vaara, 2007; Lichtenthaler, 2009), and micro-foundations (Apriliyanti and Alon, 2017). In sum, the absorptive capacity contributed to the IB field by focusing on building internal knowledge and interaction between partners, other firms, and the firm's environment (Li and Fleury, 2020). Aspects of knowledge transfer and organizational learning become part of cross-border business studies.

Higher absorptive capacity levels provide strategic advantages and lower costs, boosting innovation (Zahra and George, 2002). The adaptation and use of resources that the multinational has access to is accelerated with high absorptive capacity. In contrast, lower levels of this capacity discourage a firm's learning and the development of knowledge-based assets (Park and Chung, 2019). This happens because the firm is slower in transforming and applying this knowledge, taking more time to create value for its international investments.

The extant literature reinforces that the global transfer of knowledge and its adequate local implementation represent essential advantages for multinational firms (Foss and Pedersen, 2002). By understanding the new culture, the firm can operate the business according to local configuration and values. Thus, firms benefit from

accessing and incorporating these new routines and processes in their global structures, at the same time that they refine the existing ones. It does not mean that all knowledge previous of different cultures applies to the firm's reality. In this sense, the absorptive capacity exerts a central role in identifying and filtering the appropriate use of this knowledge.

However, Björkman, Stahl and Vaara (2007) argued that greater cultural differences are associated with lower levels of absorptive capacity due to integration issues. In a counterpoint, we would like to emphasize that this assumption does not entirely apply to emerging markets firms. Especially in Latin America, multinationals have an internationalization learning driver (Cuervo-Cazurra, 2016) that obligates the firms to rely on different levels of absorptive capacity to overcome their liabilities abroad (Li and Fleury, 2020). For instance, in 2014, WEG, a Brazilian firm, acquired Katt, a German firm, stating that the purchase's motivation was to internalize special electrical machines' development techniques (Reuters, 2014). This acquisition, can illustrate how the parent firm expects to benefit from the subsidiary's knowledge and routines. The willingness to integrate its previous product technology routines and intellectual property in a culturally distant country showed that the differences were perceived as neither an internationalization inhibitor nor a barrier to post-acquisition integration. Also, the absorptive capacity, measured in this study as patents registered and referring to the electrical machine in question, played the main role in this acquisition motivation.

Therefore, cultural diversity can be seen as a resource acquired through international investments (Lundan and Li, 2019), as it provides various ideas that stimulate creativity and problem-solving (Stahl and Maznevski, 2021). This diversity is also presented in the country's institutional environment, which allows the firm to recombine resources and knowledge (Jackson and Deeg, 2008) to develop new competencies. The firm's ability to transform this knowledge into wealth determines value creation investments. Thus, the firm will perform better and learn from this information asymmetry (Lundan and Li, 2019). Hence, absorptive capacity plays a fundamental role in boosting knowledge transfer and the integration of acquired and acquiring firms as the firm's absorptive capacity levels stimulate the integration of such diversity for the sake of benefits. Based on this thought, we propose that:

Hypothesis 2: Absorptive capacity moderates positively the effects of cultural distance on post-acquisition performance.

*** Insert Figure 1 About Here ***

5 Methodology

5.1 Sample and Data Sources

The research sample was based on data availability, which consisted of 101 international acquisitions performed by Brazilian firms in 24 other countries from 1995 to 2015. We choose to test our hypothesis using data from Brazilian firms due to the need for more studies in the Latin American context and the prominence of the country in that context (Fainshmidt *et al.*, 2018; Carney *et al.*, 2019). Moreover, it is suggested by Beugelsdijk *et al.* (2018) that studies on continental countries could answer some conflicting results in the literature regarding cultural distance effects in performance. This is because these countries often pose challenging environments to understand the culture, given their vast territory and different cultures within one nation. In this sense, Brazil is considered to successfully incorporate the "melting pot" concept, embracing and bonding its national culture with

many other countries (Gouvea, 2004; Salomão, Strehlau and Silva, 2021). Hence, the selection of Brazil falls into these two gaps, which can bring novelty insights for the IB field.

We gathered acquisitions and firm data from Thomson-Reuters (SDC Platinum), supplemented with the accounting data available in Economatica®, open data of R&D investments in B3 (the Brazilian stock exchange), and patent measurement at the National Institute of Industrial Property (INPI). The latter is a Brazilian national institute focused on gathering all patents registered in the country, achieving comprehensive data concerning the number of patents registered per firm, per year, and including technical details. World Bank Data was used to capture the GDP per capita from countries, while Lauder Institute provided us with cultural and knowledge distance values.

5.2 Dependent Variable

The dependent variable is represented by the Return on Equity (ROE), which measures the financial return on the firm’s net worth. This financial performance is measured in the post-acquisition period, referring to the year’s growth following the acquisition (Year+1) compared to the previous year (Year-1). ROE as a post-acquisition performance measure is widely used in IB literature and is pointed to as an accounting-based measure, commonly referred to as the subsequent year of a given year (King et al., 2004; Tanriverdi and Venkatraman, 2005). The main advantage in using accounting measures instead of market performance measures, such as abnormal returns, is that acquiring and target firms’ integration cannot be measured in a short period (Liou and Rao-Nicholson, 2017). Additionally, ROE is a measure strongly related to absorptive capacity (Zahra and Hayton, 2008). It shows whether the shareholders’ money invested in different cultures creates value for the multinational’s capital.

Furthermore, to provide a robustness check to our analysis, we also run tests with an alternative proxy of accounting performance, Return on Assets (ROA). ROA was used in additional tests also calculating the year’s growth following the acquisition (Year+1) compared to the previous year (Year-1). ROA is well applied in the IB literature to measure post-acquisition performance (King et al., 2004; Zollo and Meier, 2008).

5.3 Independent and Moderator Variables

To measure *Cultural distance*, we use the distance proposed by Berry, Guillén and Zhou (2010) and published by the Lauder Institute. In their work, it is argued that they solved the variance across dimensions using Mahalanobis instead of Euclidean distance from the four previous pillars established by Hofstede (2011). Moreover, the authors focused on the relationship between knowledge differences, which is also part of our study’s objective. This distance has been used in several studies (Contractor, Yang and Gaur, 2016; Beugelsdijk et al., 2018) and was well received by the literature (Kostova et al., 2020).

Absorptive capacity is measured by the number of patents, as suggested by Zahra and George (2002). The authors defined absorptive capacity suggesting four capabilities: knowledge acquisition, assimilation, transformation, and exploitation. In this regard, they argued that the ‘number of patents’ is included as an intermediate output, which refers to exploitation. “Patents also record the firm’s evolving or emerging knowledge and therefore represent a milestone in its progress in discovery and innovation” (George et al., 2001 p. 216). Moreover, the number of patents has been applied in IB studies (Zahra and Hayton, 2008; Song et al., 2018).

Additionally, to ensure that our results are not biased or conditionate to our measures, we also performed a robustness check with a different proxy of absorptive capacity, measured by the amount invested in research and development (R&D). R&D is an alternative measure for absorptive capacity well applied in the literature (George *et al.*, 2001; Camisón and Forés, 2010) and effective for robustness check purposes.

5.4 Control Variables

Knowledge distance follows the indicator suggested by Berry, Guillén and Zhou (2010). It measures the distance between home and host country regarding knowledge and innovation. This variable is computed by analyzing the differences in patents and national scientific production (Berry, Guillén and Zhou, 2010). The idea behind it is that more innovative countries provide better organizational learning environments, impacting a firm's performance. Thus, higher values show an acquisition in countries with better learning environments and vice-versa.

Acquisition size was measured by the percentage acquired during the transaction. It reflects the level of resources that the acquiring firm spent and could impact the post-acquisition performance (Buckley, Elia and Kafouros, 2014). The more the shares acquired in the transaction, the more challenging the return of those investments through performance. The level of resource commitment also represents the firm's propensity for risky investment.

The industry's average ROE controls the industry's performance effects regarding the average financial returns (Bortoluzzo *et al.*, 2014). Also, during the robustness check, we applied the same variable but for ROA, entitled *average ROA*. This control aims to eliminate nuances on asymmetries in performance cross-industries. For example, high-tech firms lead investments that can hold technological assets at unusual prices, reflecting a more exacerbated performance when compared to other industries in the study sample (Bortoluzzo *et al.*, 2014).

The *type of industry* of the acquired firm is also a dummy. It classifies whether the acquisition is made between different types of industry or not. The nature of the acquisition by the type of industry is a metric used in previous studies to control existing knowledge in performance (Li and Wang, 2019). For instance, in the acquisition realized to a firm in the same industry, the adaptation cost is minimized and the performance less affected.

Firm size was measured using the acquiring firm's total assets in the acquisition year, which could represent more or fewer gains on performance (Luo and Wang, 2012). The firm's size implies the number of assets interacting with accounting indicators such as ROA and ROE.

Slack of resources represents the ratio between the organization's current assets and current liabilities and the measurement of available resources during the acquisition (Chiu and Liaw, 2009). A firm with a high level of available resources has a comfortable situation. The commitment of resources is lower and could perform better financially for this reason.

Macroeconomic data such as GDP per capita can influence the firm's international performance, considering the differences between the countries' economies involved in the acquisitions (Hansen and Gwozdz, 2015). GDP per capita data were collected from investment destinations to control these effects. The applicability of macroeconomic variables in IB finds support in the literature (Chakrabarti, Jayaraman and Mukherjee, 2008;

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3 Zhu *et al.*, 2019). Economic indicators help to address the level of economic development that can affect the
4 cultural arrangement settled.
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6 *Experience* in international operations was also used as a control variable. The longer the firm operates its
7 business in a foreign environment, the more experience it gains and creates value (Basuil and Datta, 2015), learning
8 how to operate the business. Thus, we controlled whether the firm had a history of acquisitions in the country
9 registered before the focus year.
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13 **5.5 Estimation Method**
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15 Data analysis of this research is performed by ordinary least squares (OLS) and moderation tests to verify
16 the relationships proposed by the hypotheses. OLS regression modelling was adequate given the nature of our
17 dependent variable and the multilevel nature of our dataset. This is because our data may possess cross effects
18 since acquisitions by the same firm may co-occur in the same country, from different firms in the same country,
19 and from the same firm in different countries. The mathematical model is represented as the following equation:
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$$Y = i_1 + b_1M + b_2X + b_3XM + b_4C + e_Y$$

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25 Where *Y* is the dependent variable (performance), *i*₁ represents the regression constant, *b*₁*M* is the moderator
26 variable centered (AC), *b*₂*X* is the independent variable (cultural distance), *b*₃*XM* is the moderation centered (AC
27 * CD), *b*₄*C* represents our control variables, and *e*_{*Y*} is the error. Moderation tests were performed by centering the
28 variable of interest in different levels based on the number of standard deviations from the mean. This analysis is
29 called the pick-a-point approach and “allows the investigator to ascertain whether *X* is related to *Y* among those
30 “relatively low” (*M*– *SDM*), “moderate” (*M*), and “relatively high” (*M*+*SDM*) on the moderator [...] Using the
31 regression-centering strategy” (Hayes, 2013, p. 236). Thus, this approach provides us with a better understanding
32 of the moderation sign and its effects since looking only at the moderation term, and its sign may lead to biases.
33 Hence, we ascertain how the cultural distance variable changes given the scenarios with low, moderate, and high
34 levels of absorptive capacity.
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40 **6 Results**
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42 The sample’s descriptive statistics are presented in Table 1.
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46 Table 2 shows the correlations between the variables. According to the literature, VIF values are
47 satisfactory when less than 10 (Hair Jr *et al.*, 2016). Therefore, no severe multicollinearity problems were identified
48 among the latent variables of the study. Also, heteroscedasticity tests were performed, such as the Breusch Pagan
49 Test, meeting the minimum criteria for linear regression analysis.
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53 *** Insert Table 2 About Here ***
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55 Table 3 shows our results. All models are a result of OLS regression. Model 1 shows only the control
56 variables. In Model 2, we tested Hypothesis 1. H1 proposes that cultural distance positively impacts post-
57 acquisition performance. The positive effect of cultural distance was verified (β 0.270 and $p < 0.05$), and the results
58 supported the relationship proposed in Hypothesis 1. Beugelsdijk *et al.* (2018) have found conflicting results
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regarding the effect of cultural distance on financial performance. Their results showed that cultural differences could positively affect acquisitions performance when the home country is an emerging market operating in developed countries; otherwise, the effect is even more negative when operating in emerging host countries. Our findings corroborate help to extend their study's findings, indicating that EMNEs can also benefit through cultural asymmetries in a sample composed mainly of emerging markets host countries. We explain that these benefits come from learning and innovating through internalizing best practices and routines from different cultures (Stahl *et al.*, 2016).

*** Insert Table 3 About Here ***

In Model 3, moderation presents a significant but negative effect on the relationship between cultural distance and performance (β -0.375 and $p < 0.1$). However, the impact of cultural distance is positive on performance (β 0.309 and $p < 0.01$). To guarantee an accurate interpretation of the effect of X on Y, we applied a moderation analysis in Model 4 and Model 5. Following Hayes (2013), Model 4 and Model 5 showed a moderation shift following the moderating variable's standard deviation. According to the author, the sign of moderation cannot be interpreted by the beta sign of the moderating variable but by the effect of greater or lesser moderation on the independent variable's beta (Hayes, 2013). This approach allowed a complete analysis of moderation's real effect and showed the data behavior when it gains intensity (Model 4) or loses intensity (Model 5). In Model 4, when moderation is more intense, it is possible to observe that the influence of cultural distance on performance is greater, positive, and significant (β 0.581, $p < 0.01$). In Model 5, it is possible to observe a decrease in the cultural distance beta even though the moderation was insignificant. It can be noted that the independent variable's positive influence decreased compared to the other models. These results support hypothesis 2. H2 proposes a positive influence of absorptive capacity.

Few studies investigated this capacity as a moderator in cultural effects even though recognizing that knowledge in different cultures represents an advantage for the multinational. This can be explained by the fact that the IB literature comprehensively addresses the cultural distance from other different perspectives due to the complexity and depth of the theme. However, cultural knowledge has been shown itself as an allied to organizational learning. Schomaker and Zaheer (2014) found that language differences positively affect knowledge transfer across the international business since employees need to pay more attention when communicating with different teams. Other studies proposed that the firms benefit from developing creativity and problem-solving competencies when accessing different cultural sources in cross-border business (Stahl and Tung, 2015; Stahl *et al.*, 2016). Thus, the knowledge diversity existing in different cultures can lead the firm to create value in M&As based on their abilities to explore this knowledge and learning opportunities, translated in this paper by the absorptive capacity perspective. However, studies that combined cultural knowledge with absorptive capacity have tested the inversed effect proposed by our model. For instance, Murovec and Prodan (2009) have found that cross-cultural innovation can positively influence a firm's absorptive capacity. Later, Zhou, Fey and Yildiz (2020) have found an indirect impact of this capacity. They concluded that absorptive capacity affects knowledge transfer, hence reducing the negative impact of cultural distance. In none of these studies, the positive impact of cultural knowledge and its direct interaction with absorptive capacity has been addressed (except for the direct but negative impact of culture distance proposed by Junni and Sarala, 2013), denoting the novelty and contraintuitiveness in our findings.

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Some of the control variables presented significant values, corroborating to support our hypotheses. Knowledge distance was significant and negative, showing that the level of national innovation asymmetry generates worse performance. It is interesting to note because this result contrast with cultural distance findings showing that cultural aspects can have a different effect from innovative measures from a national perspective. Acquisition size, average ROE, firm size and experience were not significant. Type of industry was significant and negative in model 2, showing that unrelated industry cross-cultural acquisitions, without absorptive capacity, impact the performace negatively. Slack of resources was significant and negative, showing that if the company has more money available during the transaction, it does not benefit. One reason could be that companies with more resources available actually did not invest great amounts in the focal acquisition, consequently benefiting less than they could. GPD per capita host country showed negative and significant effects, indicating that investing in less developed countries may offer better results.

6.1 Robustness checks

We also performed additional tests to give the model robustness. We applied the guidelines proposed in previous studies using alternative proxies for performance and absorptive capacity variables (Liou and Rao-Nicholson, 2017). The robustness check confirmed similar assumptions of the original tests, as illustrated in Table 4.

*** Insert Table 4 About Here ***

Model 7 shows a positive effect of cultural distance on performance, although it is not significant. This can be explained because ROA considers the totality of the firm’s assets. Consequently, the cultural knowledge effect is more spread in the pool of knowledge assets and less statistically evident. While models 8, 9, and 10 confirmed the positive and significant moderation effects of absorptive capacity. As absorptive capacity is measured by R&D, it could explain more than only cultural knowledge impact. Nevertheless, the cultural distance variable is also positive and significantly interacts with this capacity. Thus, the results do not invalidate what was proposed in our hypothesis.

We also performed additional tests to give the model robustness using the fixed effects to fix the year of acquisition in the original model. These tests control the year's effects, which were not observed in the regression and moderation (Khurshed *et al.*, 2020). The fixed-effects model can confirm the OLS regression results, as illustrated in Table 5.

*** Insert Table 5 About Here ***

Variations were not observed between the two types of regression (OLS and fixed effects). The explanatory strength of the model is more significant in the regression tested without fixed effects. The fixed-effects model helps mitigate the effects of temporal trends on firms' post-acquisition performance (Miller, Lavie and Delios, 2016). Since this performance was based on ROE, it is influenced by the temporal results of organizations.

7 Discussion and conclusion

This study aimed to identify the moderating role of absorptive capacity on post-acquisition performance over the cultural asymmetries during international acquisitions. To do that, we tested two hypotheses considering Brazilian acquisitions in 1995-2015. Our two hypotheses were supported as we found that higher cultural distance improves performance and that the firm absorptive capacity moderates the effect of such distance. Thus, our findings showed a positive influence of cultural distance on post-acquisition performance and that the moderation of absorptive capacity is positive, as it enhances the influence of culture on performance. In addition, the long-term accounting performance was analyzed, proposing that the positive moderation contributes to sustaining business in a foreign environment.

Primarily, we contribute to the international business literature by providing evidence of the positive side of doing business in different cultures. As part of a country's institutions, cultural distance provides several "social rules" to operate business abroad. This concept is built on how a nation's cultural configuration is different or close to another (Berry, Guillén and Zhou, 2010). Although one side of the literature defends that the differences negatively impact performance through adaptation costs (Aybar and Ficici, 2009), the other side supports the value of accessing several sources of knowledge (Stahl *et al.*, 2016). The diversity of sources present in cultural differences could benefit the firm, and hypothesis 1 posited that. This positive side of the literature reinforces the knowledge stock created during international acquisitions in culturally distant countries (Sarala and Vaara, 2010). This new culture in which the firms are embedding provides new routines and structures to be explored by the acquiring firm during the acquisition (Morosini, Shane and Singh, 1998).

We also contribute to the knowledge-based view literature adding the absorptive capacity to the analysis as advocated in hypothesis 2. Firms and their internal capabilities will determine their ability to transform knowledge into wealth for the organization (Nagano, 2020). In its original concept, absorptive capacity proposes that the firm's internal capacity determines the ability to exploit knowledge for commercial purposes (Cohen and Levinthal, 1990). The absorptive capacity enhances firms' adaptation in foreign environments, providing strategic benefits that contribute to its success. Thus, our results highlight the role of this internal capacity in improving the exploration of sources present in different cultures.

The results supported the Brazilian firms' analysis, making it reasonable to discuss two main boundary conditions present in this context. First, as the only home country in the sample, Brazil has particular conditions and motivations to internationalize, which might be more relevant to business' performance than the cultural differences per se (Beugelsdijk *et al.*, 2018). Firms from emerging countries internationalize their businesses, searching for external resources and knowledge unavailable in their domestic market (Khan, Lew and Marinova, 2019). Therefore, this ability is essential for firms from emerging markets that access foreign markets are searching for sustainable competitive advantage. Knowledge-based resources provide strategic benefits for the organization and create value for international transactions when offering innovation subsidies. The second boundary condition brings to contrast the Brazilian natural, cultural diversity. Brazil is considered to successfully incorporate the "melting pot" concept, embracing and bonding its national culture with many other countries (Gouvea, 2004; Salomão, Strehlau and Silva, 2021). The "melting pot" ideology regards a different type of multiculturalism in a nation (Triandis, 1994; Leung *et al.*, 2005) where the national identity is known by its diversity, and perhaps it can also help explain this controversial empirical outcome regarding the Brazilian context. In this sense, cultural differences might not represent a barrier for Brazilians EMNEs.

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As a managerial contribution, managers should consider this cultural diversity an important and positive factor for business, especially if the firm has well-developed innovation skills when deciding to invest in a foreign country. For instance, if a manager faces an investment decision between countries X and Y, and given that X is culturally closer, the manager might consider investing in Y to benefit from the cultural distance. As our results point out, an investment in Y may trigger innovation and provide support for business value creation also based on the firm's absorptive capacity level. As for policymakers, our results suggest the need to take into consideration how cultural diversity may trigger innovations when building innovation policies.

This study is not free of limitations. The sample size limited the number of observations in this study. In this case, a larger sample of acquisitions with more countries of origin can bring different results and add more novelty information to discuss the topic in emerging markets. Therefore, it is also suggested that future studies may investigate how this relationship occurs in acquisitions from developed economies. Additionally, the cultural distance was analyzed in a packed indicator. Besides, analyzing different cultural aspects by fragmenting the cultural distance indicator can provide more specific results on the influence of the context on international acquisitions.

Our findings agree with the studies that point a positive effect of different cultures. However, the analysis of the negative aspects of cultural distance should not be disregarded. Despite the mixed empirical evidence in the literature, there are several reasons to believe that our proposed model is plausible. First, cultural distance is not a unitary concept, and it encompasses different dimensions (e.g., Hofstede's cultural dimensions) that could have different effects on the multinational. Second, absorptive capacity is not a unitary concept either, and it can be decomposed in different dimensions (e.g., learning, organizational, and strategic dimensions) that could also have different effects on the multinational. Hence, more study on the subject could be beneficial for the literature.

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Table 1. Descriptive statistics

	N	Minimum	Maximum	Mean	Standard Deviation
ROE	101	-0.703	0.663	-0.043	0.179
ROA	101	-0.272	0.134	-0.021	0.069
Cultural distance	101	1.121	42.598	8.959	7.235
Absorptive capacity (patents)	101	0	295	30.376	55.751
Absorptive capacity (R&D)	101	1.2 mi	1.7 bi	302 mi	462 mi
Knowledge distance	101	0.001	47.565	6.363	10.396
Acquisition size	101	2.485	4.605	4.303	0.447
Average ROE	101	-0.315	0.784	0.147	0.125
Average ROA	101	-0.102	0.196	0.065	0.044
Type of industry	101	0	1	0.515	0.502
Firm size	101	2.14 mi	322.16 bi	31.36 bi	66. 98 bi
Slack of resources	101	0.613	4.879	1.736	0.863
GDP per capita host country	101	2440.5	14.2 mi	689334.7	2.2 mi
Experience	101	0	1	0.188	0.393

Table 2. Correlations

	ROE	ROA	1	2	3	4	5	6	7	8	9	10	11
1 Cultural distance	.174	.045	1										
2 Absorptive capacity (patents)	.306**	.058	.262**	1									
3 Absorptive capacity (R&D)	.020	-.059	.219*	.237*	1								
4 Knowledge distance	-.074	-.087	.567**	.167	.157	1							
5 Acquisition size	-.144	-.040	.152	-.071	-.064	.153	1						
6 Average ROE	-.004	-.021	.015	-.026	.048	.118	-.064	1					
7 Average ROA	.027	.052	-.052	-.158	.050	-.082	-.010	.725**	1				
8 Type of industry	-.038	-0.127	.092	-.043	0.141	.062	-.059	-.021	0.041	1			
9 Firm size	-.005	-.077	.267**	.253*	.862**	.272**	-.027	-.010	-.020	.306**	1		
10 Slack of resources	-.331**	-.395**	-.202*	-.100	-.181	-.088	.012	-.091	-.211*	-.231*	-.094	1	
11 GDP per capita host country	-.005	.135	-.164	-.046	.072	-.118	-.017	-.042	.115	.166	.103	-.080	1
12 Experience	.067	.065	-.023	.074	.039	.135	-.200*	-.066	-.080	.112	.097	.041	-.051

Correlations >0.099 in magnitude are significant at the $p < 0.05$ level of confidence.

Table 3. OLS Results

Variables	1	2	3	4	5
		0.270*	0.309**	0.581**	0.038
Cultural distance		(0.003)	(0.003)	(0.006)	(0.003)
		[0.031]	[0.011]	[0.019]	[0.763]
Absorptive capacity			0.558†	0.558†	0.558†
			(0.000)	(0.000)	(0.000)
			[0.061]	[0.061]	[0.061]
Absorptive capacity * Cultural distance			-0.375†		
			(0.000)		
			[0.077]		
(Absorptive capacity * Cultural distance) + S.D.				-0.543†	
				(0.000)	
				[0.077]	
(Absorptive capacity * Cultural distance) - S.D.					-0.366†
					(0.000)
					[0.077]
Knowledge distance	-0.115	-0.244*	-0.275*	-0.275*	-0.275*
	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)
	[0.177]	[0.037]	[0.020]	[0.020]	[0.020]
Acquisition size	-0.122	-0.139	-0.124	-0.124	-0.124
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
	[0.117]	[0.083]	[0.107]	[0.107]	[0.107]
Average ROE	-0.034	-0.015	-0.014	-0.014	-0.014
	(0.123)	(0.122)	(0.125)	(0.125)	(0.125)
	[0.695]	[0.865]	[0.871]	[0.871]	[0.871]
Type of Industry	-0.148†	-0.135†	-0.085	-0.085	-0.085
	(0.029)	(0.027)	(0.027)	(0.027)	(0.027)
	[0.078]	[0.082]	[0.266]	[0.266]	[0.266]
Firm size	0.088	0.004	-0.049	-0.049	-0.049

	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
	[0.240]	[0.950]	[0.499]	[0.499]	[0.499]
	-0.382*	-0.341 [†]	-0.316 [†]	-0.316 [†]	-0.316 [†]
Slack of resources	(0.040)	(0.040)	(0.037)	(0.037)	(0.037)
	[0.052]	[0.084]	[0.087]	[0.087]	[0.087]
	-0.107*	-0.098	-0.109 [†]	-0.109 [†]	-0.109 [†]
GDP per capita host country	(0.005)	(0.005)	(0.006)	(0.006)	(0.006)
	[0.052]	[0.101]	[0.097]	[0.097]	[0.097]
	0.077	0.108	0.099	0.099	0.099
Experience	(0.053)	(0.055)	(0.046)	(0.046)	(0.046)
	[0.510]	[0.379]	[0.330]	[0.330]	[0.330]
N	101	101	101	101	101
R ²	0.179	0.220	0.303	0.303	0.303

[†] = p<0.1; * = p<0.05; ** = p<0.01; *** = p< 0.001. robust standard error in parentheses. p-value in square brackets.

Dependent variable: ROE.

Table 4. Robustness check

Variables	6	7	8	9	10
Cultural distance		0.139 (0.001) [0.247]	0.234 [†] (0.001) [0.066]	0.414** (0.001) [0.016]	0.055 (0.001) [0.601]
Absorptive capacity			0.295** (0.004) [0.008]	0.295** (0.004) [0.008]	0.295** (0.004) [0.008]
Absorptive capacity * Cultural distance			-0.243** (0.000) [0.004]		
(Absorptive capacity * Cultural distance) + S.D.				-0.359* (0.000) [0.004]	
(Absorptive capacity * Cultural distance) - S.D.					-0.232** (0.000) [0.004]
Knowledge distance	-0.103 (0.000) [0.147]	-0.168 [†] (0.000) [0.083]	-0.117 (0.000) [0.247]	-0.117 (0.000) [0.247]	-0.117 (0.000) [0.247]
Acquisition size	-0.013 (0.000) [0.880]	-0.023 (0.000) [0.796]	-0.043 (0.000) [0.643]	-0.043 (0.000) [0.643]	-0.043 (0.000) [0.643]
Average ROA	-0.048 (0.104) [0.474]	-0.048 (0.101) [0.468]	-0.073 (0.110) [0.304]	-0.073 (0.110) [0.304]	-0.073 (0.110) [0.304]
Type of Industry	-0.161 [†] (0.012) [0.079]	-0.155 [†] (0.012) [0.081]	-0.105 (0.012) [0.243]	-0.105 (0.012) [0.243]	-0.105 (0.012) [0.243]
Firm size	-0.114	-0.156*	-0.252***	-0.252***	-0.252***

	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
	[0.146]	[0.034]	[0.000]	[0.000]	[0.000]
	-0.463**	-0.443**	-0.333*	-0.333*	-0.333*
Slack of resources	(0.014)	(0.014)	(0.012)	(0.012)	(0.012)
	[0.010]	[0.013]	[0.029]	[0.029]	[0.029]
	0.023	0.028	0.062	0.062	0.062
GDP per capita host country	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
	[0.721]	[0.682]	[0.400]	[0.400]	[0.400]
	0.126	0.141	0.100	0.100	0.100
Experience	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)
	[0.245]	[0.206]	[0.374]	[0.374]	[0.374]
N	101	101	101	101	101
R ²	0.227	0.238	0.300	0.300	0.300

† = p<0.1; * = p<0.05; ** = p<0.01; *** = p< 0.001. robust standard error in parentheses. p-value in square brackets.

Dependent variable: ROA.

Table 5. Fixed effects

Variables	11	12	13	14	15
		0.008**	0.008**	0.020**	0.005
Cultural distance		(0.003)	(0.003)	(0.006)	(0.004)
		[0.033]	[0.030]	[0.002]	[0.354]
Absorptive capacity			0.003***	0.003***	0.003***
			(0.000)	(0.000)	(0.000)
			[0.000]	[0.000]	[0.000]
Absorptive capacity * Cultural distance			-0.0002**		
			(0.000)		
			[0.006]		
(Absorptive capacity * Cultural distance) + S.D.				-0.0002**	
				(0.000)	
				[0.006]	
(Absorptive capacity * Cultural distance) - S.D.					-0.0002**
					(0.000)
					[0.006]
Knowledge distance	-0.003	-0.006**	-0.005**	-0.005**	-0.005**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
	[0.198]	[0.021]	[0.015]	[0.015]	[0.015]
Acquisition size	-0.043	-0.067	-0.067†	-0.067†	-0.067†
	(0.045)	(0.045)	(0.0398)	(0.0398)	(0.0398)
	[0.343]	[0.144]	[0.099]	[0.099]	[0.099]
Average ROE	-0.043	-0.003	0.010	0.010	0.010
	(0.152)	(0.150)	(0.131)	(0.131)	(0.131)
	[0.780]	[0.982]	[0.939]	[0.939]	[0.939]
Type of Industry	-0.039	-0.027	-0.011	-0.011	-0.011
	(0.040)	(0.039)	(0.034)	(0.034)	(0.034)
	[0.344]	[0.507]	[0.749]	[0.749]	[0.749]
Firm size	0.004	-0.002*	-0.009	-0.009	-0.009

	(0.008)	(0.008)	(0.007)	(0.007)	(0.007)
	[0.622]	[0.778]	[0.244]	[0.244]	[0.244]
	-0.064**	-0.058**	-0.053*	-0.053*	-0.053*
Slack of resources	(0.025)	(0.025)	(0.022)	(0.022)	(0.022)
	[0.014]	[0.024]	[0.020]	[0.020]	[0.020]
	-0.008	-0.007	-0.007	-0.007	-0.007
GDP per capita host country	(0.011)	(0.010)	(0.009)	(0.009)	(0.009)
	[0.476]	[0.496]	[0.445]	[0.445]	[0.445]
	0.065	0.074	0.062	0.062	0.062
Experience	(0.052)	(0.050)	(0.044)	(0.044)	(0.044)
	[0.212]	[0.150]	[0.170]	[0.170]	[0.170]
N	101	101	101	101	101
R ²	0.143	0.195	0.410	0.410	0.410

† = p<0.1; * = p<0.05; ** = p<0.01; *** = p< 0.001. standard error in parentheses. p-value in square brackets.

Dependent variable: ROE.

Figure 1. Conceptual framework

