

A Work Project, presented as part of the requirements for the Award of a Master's degree in  
Management from the Nova School of Business and Economics.

THE EFFECT OF CULTURAL AND GEOGRAPHIC DISTANCE ON M&A  
PERFORMANCE: INSIGHTS FROM LATIN AMERICAN FIRMS

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Date of Submission: 17/12/2024

Date of Defense: 27/01/2025

## **Abstract**

Cross-border mergers & acquisitions (M&As) are a key strategy for international expansion, yet factors influencing their outcomes remain unclear, particularly for Latin American acquirers. This study examines the impact of cultural and geographic distance on the long-term M&A performance of Latin American firms. Using a unique dataset of M&A deals from 2010 to 2021, change in return on assets (ROA) is applied to measure outcomes. Results show no significant effects of cultural distance, but weakly significant negative effects of geographic distance on performance. This finding challenges the assumption that technological advancements diminish the impact of geographic distance on M&A outcomes.

## **Keywords**

M&As, Latin America, Cultural distance, Geographic distance

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

## **1 Introduction**

M&As have long been a topic that has drawn the attention of both researchers and practitioners (Caiazza and Volpe 2015). In 2021, for the first time ever, the worldwide M&A volume exceeded 5 trillion US dollars (IMAA 2024). This intensity of M&A activity could intuitively suggest that past transactions successfully generated value. However, the literature presents a contrasting perspective (Chand, R. Jiang, and Z. Zhao 2023). With a significant number of M&As not achieving desired financial outcomes (Cartwright and Cooper 1993; King et al. 2004; Tuch and O'Sullivan 2007) and a failure rate estimated to exceed 70% (Christensen et al. 2011), it becomes evident how complex M&As are. When it comes to cross-border M&As, i.e. a transaction between an acquirer and a target in different countries, the process is considered even more challenging. Acquirers are not only confronted with the integration of firms with distinct organizational cultures, but also with challenges posed by different national cultures, referred to as “double-layered acculturation” (Barkema, Bell, and Pennings 1996).

Therefore, among possible factors influencing M&A outcomes, national cultural distance received much attention in research, however, with inconclusive findings (Stahl and Voigt 2008; Teerikangas and Very 2006). In line with the previously mentioned strand of literature arguing that cultural differences are an additional challenge in the M&A process, some scholars find a negative impact of cultural distance on performance (Boateng et al. 2019; Chand, R. Jiang, and Z. Zhao 2023; Chatterjee et al. 1992; Datta 1991; Datta and Puia 1995; Weber 1996). In contrast, other studies report positive effects and argue that an acquisition of a target embedded in a highly distinct national cultural context offers access to a unique and thus, highly valuable set of new practices that can enhance a firm's competitive advantage (R. Chakrabarti, Gupta-Mukherjee, and Jayaraman 2009; Morosini, Shane, and H. Singh 1998). Lastly, there are also studies who find no support for an effect of national cultural distance on performance (Ahammad et al. 2016; Markides and Ittner 1994). Therefore, despite significant

research efforts, the impact of cultural distance remains a debated topic. Geographic distance, although less studied, has also been linked to M&A outcomes. Findings show that geographically closer deals tend to perform better due to higher associated costs of information and coordination of more distant targets (Kengelbach, Schwetzler, and Sperling 2010; Uysal, Kedia, and Panchapagesan 2008).

While M&A studies are generally centered on developed markets and Asian emerging economies (Gomes et al. 2020), one region is largely overlooked: Latin America (Cuervo-Cazurra 2016; Elahee and Vaidya 2001; Huesca-Dorantes, Michailova, and Stringer 2018). However, with its unique context as one of the most geographically isolated regions (Cuervo-Cazurra 2016), strong economic growth, and increasing global activity, it offers a compelling case for analysis of how cultural and geographic factors can shape M&A outcomes (Lopez-Morales 2018). Additionally, a discussed EU-Mercosur agreement could enhance economic relations between Europe and four Mercosur members (Argentina, Brazil, Paraguay, and Uruguay), creating opportunities for Latin American firms to expand their investments in Europe (European Commission 2024).

This study seeks to reduce the imbalance between M&A studies on developed and emerging markets and closes a gap in current research by analyzing both the effect of cultural distance and geographic distance on the long-term performance of Latin American firms. Focusing exclusively on Latin America is particularly compelling due to the shared developmental trajectories of the nations within the region, which shape the experience of firms and create comparable challenges and opportunities (Cuervo-Cazurra 2008).

Using a unique dataset of domestic and cross-border deals conducted between 2010 and 2021 by Latin American firms, this study employs the accounting metric change in ROA, from one year before to two years after the M&A to measure long-term financial outcomes.

The paper is structured as follows: First, the theoretical foundation for this study is built

in Chapter 2, followed by the development of the hypotheses in Chapter 3. Subsequently in Chapter 4, the dataset, the variables, and the applied statistical method are introduced. Chapter 5 presents the results along with a robustness test. In Chapter 6, the results are discussed, followed by a concluding Chapter 7 that presents limitations and opportunities for future research.

## **2 Theoretical background**

### **2.1 Cross-border M&A**

In an increasingly globalized world, cross-border M&As are gaining greater significance as a means to rapidly enter new markets (Vermeulen and Barkema 2001). In fact, during the first three quarters of 2024, cross-border acquisitions represented 35% of the total global M&A activity (LSEG 2024).

Previous research outlines a variety of motives to pursue cross-border acquisitions. Asset exploitation is widely acknowledged as a predominant factor for firms with superior assets, like products, capabilities, or technology (Errunza and Senbet 1981; Makino, Lau, and Yeh 2002), whereas strategic asset-seeking motives are often highlighted as the main driver for emerging economy acquirers (J. Li, P. Li, and B. Wang 2016; Luo and Tung 2007), alongside market-seeking motives (Chudnovsky and López 2000).

Given the growing popularity of cross-border M&As, a noteworthy number of studies empirically analyzed their value creation. However, despite the performance measure being similar across these studies, the findings are inconclusive. For developed market acquirers, Markides and Ittner (1994) report that cross-border M&As create value for the acquiring firm, while Datta and Puia (1995) find a performance deteriorating effect. Similarly, for emerging market firms, Aybar and Ficici (2009) detect value destruction in most transactions. Contrasting, Bhagat, Malhotra, and Zhu (2011) find positive effects for emerging economies,

supported by Gubbi et al. (2010) for Indian companies, and studies with a focus on China (J. Li, P. Li, and B. Wang 2016; Tao et al. 2017). However, while Z. Liu, Ding, and X. Zhang (2021) found that cross-border M&As significantly boost the performance of Chinese acquirers in the short term, they fail to do so in the long term. Lastly, Dakessian and Feldmann (2013), focusing on Latin America, observe no value enhancement in the short term.

These inconclusive findings underscore the complexity of cross-border M&As, particularly in the post-acquisition phase (Shimizu et al. 2004). Firms undertaking international acquisitions encounter the “liability of foreignness”, a term that describes the increased costs of operating in a foreign market (Eden and S. R. Miller 2004). In addition, emerging economy firms are confronted with the “liability of origin”, associated with the perceived weaknesses linked to their domestic country (Cuervo-Cazurra et al. 2018). Research further emphasizes the increased difficulties of the integration process as firms undergo a “double-layered acculturation”, urging them to navigate both distinct organizational cultures and unfamiliar national cultures (Barkema, Bell, and Pennings 1996).

National cultural distance is defined as a concept that reflects the degree to which two cultural groups differ in their norms and values and is argued to be deeper rooted than organizational culture or others, as it is learned earlier in life (G. H. Hofstede 2001). Therefore, it is widely recognized to have an influence on corporate behavior, explaining its frequent application in cross-border M&A studies (Boateng et al. 2019; Deng and Yang 2015).

To conceptualize cultural distance, this study applies the national cultural dimensions framework published by Hofstede in 1980. Despite the introduction of more recent cultural frameworks by Schwartz (1998) and GLOBE by House et al. (2004), Hofstede’s framework remains dominant in international business research, although not without criticism (Baskerville 2003; McSweeney 2002; Tung and Verbeke 2010). Critics challenge the reliance on questionnaire data collected solely from employees of one company, IBM, which introduces

potential bias. Additionally, the limited number of respondents for many nations raises concerns about representation (McSweeney 2002). Further, the framework equates cultures with nations, overlooking subcultural differences within countries (Baskerville 2003; Tung and Verbeke 2010). Finally, questions remain about whether the findings, based on data from decades ago, are still relevant in today's global context (McSweeney 2002).

However, since Hofstede's framework remains the most comprehensive for Latin America, it is considered suitable for this study (Correa, V. Singh, and Farrell 2023). Hofstede's original model classifies culture into four dimensions: power distance, individualism, uncertainty avoidance, and masculinity (G. H. Hofstede 2001) (see Table 5 in the Appendix).

## **2.2 Multinationalization of Latin American firms**

As this study focuses on Latin America, defining the term is essential. It is not a strict geographic region, but a term encompassing countries with historical, political, and linguistic similarities, primarily rooted in the influence of Spanish and Portuguese colonization (Aguilera et al. 2017; Bulmer-Thomas 2014). Therefore, firms within these nations share developmental trajectories and are characterized by having similar experiences (Cuervo-Cazurra 2008).

The region's economic significance is undeniable, with its two largest economies, Brazil and Mexico, ranking among the world's top 12 based on GDP (The World Bank 2024) and numerous Latin American firms emerging as leaders within their industries (Cuervo-Cazurra 2008). Examples are the Mexican baked goods firm Bimbo, Brazilian orange juice producer Citrusuco, and Argentinean steel firm Tenaris, among others (Cuervo-Cazurra 2016). However, the process of their multinationalization was noticeably lengthy, as Latin American firms opted for exporting activities long before establishing a foreign direct investment (FDI). Cuervo-Cazurra (2008) discovered that it took leading Latin American firms, on average, more than 49 years from their establishment to the first FDI. The drivers to undertake an FDI were deteriorating economic conditions and structural reforms in their countries, leading them to

rethink involvement in foreign markets to improve competitiveness, predominantly via cross-border acquisitions (Chudnovsky and López 2000; Dominguez and Brenes 1997).

Likely due to the rather late multinationalization of firms from Latin America in the 1980s and 1990s (Cuervo-Cazurra 2008), the region has not been a main focus in international business studies (Elahee and Vaidya 2001). However, the region's emerging market status and geographic isolation make it a fascinating case that could offer interesting contributions to M&A literature. Specifically, understanding why many Latin American firms tend to focus on markets with cultural and geographic proximity is crucial, as this seems to limit their growth and withhold them from becoming global leaders in their industries (Lopez-Morales 2018).

### **3 Hypothesis development**

#### **3.1 The effect of national cultural distance on M&A performance**

Research indicates how firms from countries with distinct national cultures often differ in their organizational practices (Kogut and H. Singh 1988), including management styles and decision-making (Ralston et al. 1993; Schneider and Meyer 1991) as well as human resource management (Schuler and Rogovsky 1998).

Therefore, in an evolving global business environment in general, but particularly in complex processes like M&As, it is crucial that organizations are aware of the role and effects of cultural differences (Teerikangas and Very 2006). From one perspective, managing acquisitions in culturally distant countries can involve significant costs (Kogut and H. Singh 1988), as firms might face the need for local adaptation and the necessity to change their organizational practices (Tihanyi, Griffith, and Russell 2005). However, building on the argument that acquisitions improve performance by offering the opportunity to obtain a valuable set of new practices and routines, international acquisitions with large cultural distances may boost the learning effect even further (Morosini, Shane, and H. Singh 1998;

Vermeulen and Barkema 2001). This is because the target likely possesses a highly distinct set of practices embedded in a firm's national cultural context (Kogut and H. Singh 1988). In line with these possible positive and negative effects of culture, empirical research yields mixed results (Stahl and Voigt 2008; Teerikangas and Very 2006).

Studies on developed markets often link cultural distance to negative effects on value creation, both in the short term (Ahern, Daminelli, and Fracassi 2015; Chatterjee et al. 1992; Datta and Puia 1995) and medium term (Chand, R. Jiang, and Z. Zhao 2023). In contrast, some papers find a positive impact, such as studies on US acquirers using long-term accounting measures like Sales Growth (Morosini, Shane, and H. Singh 1998) and global samples employing long-term stock performance measures (R. Chakrabarti, Gupta-Mukherjee, and Jayaraman 2009). Meanwhile, other studies report no significant effect on performance (Ahammad et al. 2016; Markides and Ittner 1994).

The findings for emerging market acquirers are similarly mixed, though they received less attention in the literature. Aybar and Ficici (2009), analyzing emerging market firms across the globe, found a performance enhancing effect of cultural distance. In contrast, Boateng et al. (2019) and J. Li, P. Li, and B. Wang (2016) observe a negative effect with a sample of Chinese acquirers and Kukreja, Maheshwari, and A. Singh (2024) of BRICS firms. Notably, only one study exclusively examines Latin America and observes an inverse relationship between cultural distance and M&A outcomes (Dakessian and Feldmann 2013).

Supporting the empirical findings on cultural distance's negative impact on performance, international business literature emphasizes how different cultural contexts can hamper the successful transfer of knowledge between firms (Bhagat, Malhotra, and Zhu 2011; Kostova 1999) and thus, indirectly affect performance, since the successful transfer of knowledge is reported as a key indicator for acquisition performance (Ahammad et al. 2016).

Further, Slangen (2006) suggests that cultural distance by itself does not determine

M&A outcomes, but rather that its effect is subject to the degree of integration of the M&A. Thereby, cultural distance is a boon for acquisitions with low integration levels, but conversely, it may pose increased challenges at higher integration levels as a higher knowledge transfer is involved. This is in line with Weber (1996), who found that cultural differences exert a negative effect on the success of the integration of M&As. Therefore, if not successfully managed, these differences can complicate the post-M&A process (J. Li, P. Li, and B. Wang 2016).

Expanding this strand of research, Reus and Lamont (2009) describe cultural distance as a “double-edged sword”. On the one hand, cultural distance has impeding effects on communication and the development of integration capabilities, which can indirectly affect M&A performance. On the other hand, they argue that the acquisition of companies in culturally distant countries enhances the application of existing integration capabilities. In this case, the acquirer can benefit from learning about diversity, local specializations, and innovation (Reus and Lamont 2009). Notably, since Latin American companies began their multinationalization process relatively late (Cuervo-Cazurra 2008), they might face limitations in leveraging experience and already existing integration capabilities (J. Li, P. Li, and B. Wang 2016).

Given that pursuing strategic asset-seeking motives, one of the most common motives for emerging market firms, are associated with a high degree of integration (J. Li, P. Li, and B. Wang 2016; Luo and Tung 2007), it is essential to properly interpret the previously presented empirical results. Except for a few studies on developed market firms (R. Chakrabarti, Gupta-Mukherjee, and Jayaraman 2009; Morosini, Shane, and H. Singh 1998), these are focused on assessing short-term performance. The study by Dakessian and Feldmann (2013) on Latin American acquirers, is also limited to the analysis of short-term performance.

Naturally, short-term measures are not able to account for the impact of cultural distance on the integration process of M&As, as it is highly complex and has an estimated duration of around two years (Jemison and Sitkin 1986; Papadakis and Thanos 2010). Additionally, a

successful integration requires extensive learning (Barkema, Bell, and Pennings 1996). Therefore, a long-term analysis can be essential to gain more comprehensive insights.

Given the complicating effect of culture on the integration process (Slangen 2006; Weber 1996) and knowledge transfer (Barkema, Bell, and Pennings 1996), the limited internationalization experience of Latin American firms (Cuervo-Cazurra 2008) could further intensify the posed challenges by cultural distance, leading to the following hypothesis:

*Hypothesis I: Cultural distance is expected to negatively affect the long-term post-acquisition performance of Latin American firms.*

### **3.2 The effect of geographic distance on M&A performance**

In addition to culture, distance can manifest across administrative, geographic, and economic dimensions, according to the CAGE distance framework by Ghemawat (2001).

As a complementary analysis, this study seeks to investigate the influence of geographic distance on M&A performance. Geographic distance is often perceived as an important indicator for information asymmetry (Ragozzino 2009). Research shows that as distance grows, information asymmetries grow (Coval and Moskowitz 1999; Uysal, Kedia, and Panchapagesan 2008) and the costs of acquiring relevant information increase (Johanson and Vahlne 1977). In turn, acquirers might face higher difficulty in evaluating targets located further away than nearer ones (Ragozzino 2009). It is also argued that an integration and monitoring process poses a greater challenge over long distance (A. Chakrabarti and Mitchell 2013).

While it is presumed that with more advancements in information technology geographic distance becomes less relevant (Grosse and Trevino 1996; Coeurdacier et al. 2009; Y. Jiang and Noma 2024), a considerable amount of studies stresses the importance of geographic proximity in the choice of the M&A target (Berry, Guillén, and N. Zhou 2010; Boeh and Beamish 2012; A. Chakrabarti and Mitchell 2013; Clark and Pugh 2001; Y. Li, Y. A. Zhang, and Shi 2020; Ragozzino 2009). Further, the analysis of the interplay between

geographic distance and post-acquisition performance is getting more attention. While Kukreja, Maheshwari, and A. Singh (2024) observed a almost negligible impact of geographic distance on performance, Uysal, Kedia, and Panchapagesan (2008) find that acquisitions, where the target and acquirer are separated by less than 100 km, yield substantially higher returns than the remaining ones. Kengelbach, Schwetzler, and Sperling (2010) proved that acquisitions between neighboring countries perform better than acquisitions without a common border.

The effect of geographic distance might be particularly pronounced for acquirers from geographically isolated regions, such as Latin America (Vendrell-Herrero et al. 2017). Latin America is considered to be one of the most geographically isolated regions across the globe (Cuervo-Cazurra 2016). The KOF Globalization Index, which quantifies the degree of interconnectedness of countries with other parts of the world, further highlights this point. Overall, Latin American countries rank low, with the highest-ranked nation, Mexico, positioned only within the top 50 (Gygli et al. 2019).

Latin American firms often acquire within the same continent, which reflects their preference for geographically proximate targets (Gonzalez-Perez and Velez-Ocampo 2014; Huesca-Dorantes, Michailova, and Stringer 2018). Milman et al. (2001) show that Venezuela and Mexico were the most competitive Latin American players in the United States (US), whereas Chile, despite its great economic stability, played a less significant role. The authors attribute this to Mexico's inclusion in the North American Free Trade Agreement (NAFTA), but also emphasize the importance of geographic proximity to the US in fostering the competitiveness of both Mexico and Venezuela.

Therefore, regarding the previously outlined results of past research and consideration of Latin America's context of geographic isolation, the following hypothesis is proposed:

*Hypothesis II: Geographic distance is expected to negatively affect the long-term post-acquisition performance of Latin American firms.*

## **4 Research design**

### **4.1 Data collection and sample**

The data for this analysis was mainly retrieved from four sources: Securities Data Corporation (SDC) Platinum, Hofstede Insights, Thomson Reuters Eikon, and Orbis. First, data on M&A transactions by Latin American acquirers was obtained on SDC Platinum, across all industries from 2010 to 2021. Second, to determine the cultural distance for these deals, dimension scores for the acquirer and the target were collected through Hofstede Insights. Lastly, to determine post-acquisition performance, the balance sheet and income statement of the acquirer were analyzed through data provided by Eikon (publicly listed firms) and Orbis (private firms). Further, latitude and longitude coordinates on the firm's headquarters were collected to calculate geographic distances.

Due to missing financial and deal data, primarily stemming from the strong presence of private acquirers in the initial sample and strong limitations regarding financial data from over a decade ago, several cross-border acquisitions from the initial pool were excluded. Further, the absence of scores on Hofstede's four cultural dimensions for either the target or the acquirer contributed to these exclusions. Consequently, the final cross-border sample includes 75 acquisitions, with 20 targets located outside Latin America and 8 involving private acquirers.

Given the higher number of domestic acquisitions over the analyzed timeframe, one-to-two Propensity Score Matching (PSM) was applied, yielding 150 matching domestic acquisitions based on criteria such as acquisition year, country, industry, and industry relatedness. This resulted in a final sample of 225 cases.

Table 1 summarizes the sample composition, encompassing cases from 12 industries and 7 Latin American countries. The acquirer's country was required to be from Latin America but was not otherwise restricted. Notably, all the countries of the sample that engaged in cross-border acquisitions are among the 10 leading economies in Latin America by GDP (Correa,

V. Singh, and Farrell 2023), suggesting that smaller economies of the region do not significantly engage in cross-border M&A. The top three acquirer countries are Brazil (43.1%), Mexico (17.3%), and Chile (12%). These three have also been the most engaged countries in FDI in recent years (UNCTAD 2024). The three most represented acquiring industries are Consumer Staples (19.6%), Financials (18.2%), and Industrials (13.8%).

**Table 1: Sample composition.**

Country of Acquirer	Domestic M&A		Cross-Border M&A		Total	
	n	%	n	%	n	%
Argentina	15	6.7%	4 (0)	1.8%	19 (0)	8.4%
Brazil	74	32.9%	23 (9)	10.2%	97 (9)	43.1%
Chile	13	5.8%	14 (2)	6.2%	27 (2)	12.0%
Colombia	14	6.2%	9 (1)	4.0%	23 (1)	10.2%
Mexico	23	10.2%	16 (7)	7.1%	39 (7)	17.3%
Panama	0	0.0%	1 (0)	0.4%	1 (0)	0.4%
Peru	11	4.9%	8 (1)	3.6%	19 (1)	8.4%
All	150	66.7%	75 (20)	33.3%	225 (20)	100%

Note: Frequencies in parentheses show the number of cross-border acquisitions with targets located in a country outside Latin America.

## 4.2 Variables

### 4.2.1 Dependent variable

To determine post-acquisition performance, two measures are typically applied in empirical research: market measures, like cumulative abnormal returns (Aybar and Ficici 2009; Boateng et al. 2019; Gubbi et al. 2010; J. Li, P. Li, and B. Wang 2016) and accounting measures, such as Sales Growth (Morosini, Shane, and H. Singh 1998) or change in ROA (Krishnan, A. Miller, and Judge 1997; Weber 1996; Y. Zhou, Gomes, and Vendrell-Herrero 2023). While market measures are based on future expectations by investors (Thanos and Papadakis 2012), accounting measures enable a long-term evaluation of actual financial performance and synergy realization (M. Hitt et al. 1998) and are consequently considered more suitable for measuring M&A success (Stahl and Voigt 2008).

Among accounting-based measures, *change in ROA* is the most applied metric to evaluate M&A performance and thus chosen as the dependent variable in this study (King et al.

2004). The ROA reflects a firm's profitability and is calculated by dividing net income by total assets (Thanos and Papadakis 2012). *Change in ROA* is constructed as follows:

$$ROA_{chg(-1\sim+2)} = \frac{(ROA_{+2} - ROA_{-1})}{ROA_{-1}} \quad (1)$$

In line with past research, this ratio was constructed using accounting data from one year before the M&A to two years following (Porrini 2004; Y. Zhou, Gomes, and Vendrell-Herrero 2023). Two years post-acquisition is preferred over a longer period, as it limits the danger of the influence of other events occurring within the same timeframe (Papadakis and Thanos 2010). Further, it is assumed that the process of integration is completed by this point, making it possible to assess the success of the acquisition (Jemison and Sitkin 1986; Morosini, Shane, and H. Singh 1998). Due to the use of end-of-year annual reports, financial data of exactly one year pre-M&A and two years post-M&A cannot be achieved. To address this, a cut-off date on June 30 was set: acquisitions after this date use the previous year as one year before, while those before this date use data from two years prior. This ensures a consistent timeframe despite data limitations (see Figure 1 in the Appendix).

#### **4.2.2 Independent variables**

*Cultural distance.* Although Hofstede's framework was updated with two additional dimensions (G. H. Hofstede, G. J. Hofstede, and Minkov 2010), the present study uses the original model due to missing data on the new dimensions for several Latin American countries. To measure cultural distance, Kogut and H. Singh (1988) developed an index that is widely applied in cultural distance studies. However, this method has faced criticism for inaccuracy in recent research. Therefore, following the recommendation by Konara and Mohr (2019) and its adoption in current papers (Boateng et al. 2019; Brede et al. 2024; Goldenstein, Hunoldt, and Oertel 2024; Liou, Faifman, and Ellis 2023; Waqar and Ma 2022), this study applies the Euclidean distance, as follows:

$$\text{Euclidean Distance (Standardized)}_{ij} = \sqrt{\sum_{k=1}^4 \frac{(I_{ki} - I_{kj})^2}{V_k}} \quad (2)$$

$I_{ki}$  and  $I_{kj}$  represent the scores for cultural dimension  $k$  of country  $i$  and country  $j$ , respectively and  $V_k$  is the variance of the cultural dimension  $k$  (Konara and Mohr 2019). Domestic acquisitions were assigned the value '0' by design.

*Geographic distance.* While proxies for geographic distance can be used, such as the absence of a common border (Kengelbach, Schwetzler, and Sperling 2010), this study measures actual geographic distance using the latitude and longitude coordinates of the two firms' headquarters (Beugelsdijk, Ambos, and Nell 2018). In line with previous literature (Bouquet and Birkinshaw 2008; Coval and Moskowitz 1999; Y. Jiang and Noma 2024; J. Li, P. Li, and B. Wang 2016; Ragozzino 2009) spherical geometry was applied, as follows:

$$\text{Geographic Distance} = r * \text{acos}[\sin(\text{lat}_{acq}) * \sin(\text{lat}_{tgt}) + \cos(\text{lat}_{acq}) * \cos(\text{lat}_{tgt}) * \cos(\text{lon}_{tgt} - \text{lon}_{acq})] \quad (3)$$

The radius of the earth in kilometers is denoted as  $r$  ( $= 6.378$ ) and latitudes and longitudes are converted to radians, dividing by  $180/\pi$  (Coval and Moskowitz 1999).

### 4.2.3 Control variables

M&As are complex and research identified many factors that can influence their success. Therefore, six control variables were included in the model of this study. Four at the acquisition level (industry relatedness, deal value, financial crisis, and pandemic crisis), and two at the acquirer level (acquirer profitability prior and acquirer size).

*Industry relatedness.* Relatedness of the industry is expected to have a positive impact on M&A performance (Kusewitt 1985; M. Lubatkin 1983), as it enhances market power (H. Singh and Montgomery 1987) and facilitates greater synergy realization by leveraging economies of scale and scope (Boateng et al. 2019; Datta 1991). This variable is measured using the four-digit Standard Industrial Classification (SIC) code: '3' if the first three digits match,

‘2’ if the first two match, and ‘1’ if they differ (Y. Zhou, Gomes, and Vendrell-Herrero 2023).

*Deal Value.* M&A research points out the complexity of larger deals and sees them as an indicator of the difficulty of integration (Ellis et al. 2011). Further, it is found that they destroy more value (Alexandridis et al. 2013). A large acquisition may also be seen as empire-building for managers, which could lead to hubris in deal-making (Roll 1986; Seth, Song, and Pettit 2002). The deal value paid for the target in millions of US dollars is included in the model.

*Financial crisis.* To control for the effects of carrying out a deal in the aftermath of the global financial crisis, the acquisitions from 2010 until 2012 are assigned a value of ‘1’, otherwise ‘0’ (Y. Zhou, Gomes, and Vendrell-Herrero 2023).

*Pandemic crisis.* The COVID-19 pandemic significantly disrupted the global economy (Goldstein, Koijen, and Mueller 2021). In Latin America, the economic fallout was severe, with the region underperforming relative to other emerging markets (Cottani 2020). Therefore, acquisitions between 2020 and 2021 are assigned a value of ‘1’ otherwise ‘0’.

*Acquirer profitability prior.* While it is argued that firms with better pre-acquisition performance are more successful acquirers, due to their more advantageous conditions (Haleblian and Finkelstein 1999; Morck, Shleifer, and Vishny 1990), there is also evidence of an inverse relationship between the acquirer’s pre-M&A profitability and post-M&A returns (Markides and Ittner 1994). This evidence supports Jensen (1986), suggesting high profitability and cash levels might cause managers to undertake value-destroying investments. Acquirer profitability prior is measured as the ROA in the year before the deal (W. Li et al. 2020).

*Acquirer size.* Moeller, Schlingemann, and Stulz (2004) report that the larger the acquirer, the lower the financial returns of an M&A tend to be, arguably attributable to the managerial hubris theory of Roll (1986) being more pronounced for larger firms. Further studies support this finding (Alexandridis et al. 2013; Boateng et al. 2019). However, it is also supported that the size of an acquirer indicates the firm’s ability to leverage profits due to

economies of scale and scope (King et al. 2004). To measure the acquirer size, the logarithm of total assets of the year preceding the M&A is used as it reduces the skewness of the data across industries (Boateng et al. 2019; Du and Boateng 2015; W. Li et al. 2020).

### 4.3 Final model

To quantify the impact of cultural and geographic distance on the *change in ROA*, a multilinear regression model is applied, allowing a simultaneous evaluation of the isolated and combined influence of multiple independent variables on performance (Uyanık and Güler 2013). The final model, incorporating all explained variables, is constructed as follows:

$$\begin{aligned}
 \mathbf{ROA\ change} = \alpha + \beta_1 \mathbf{Cul\ } D_i + \beta_2 \mathbf{Geo\ } D_i + \beta_3 \mathbf{Ind\ rel}_i + \beta_4 \mathbf{Fin\ cris}_i + \beta_5 \mathbf{Pand\ cris}_i \\
 + \beta_6 \mathbf{Acq\ prof\ prior}_i + \beta_7 \mathbf{Acq\ size}_i + \beta_8 \mathbf{Deal\ size}_i + \varepsilon_i
 \end{aligned}
 \tag{4}$$

$\alpha$  represents the intercept. The coefficients  $\beta$  show the direction and intensity of the effects of the variables and  $\varepsilon$  refers to all the uncounted factors in the model that could exhibit an effect on performance. The sample was windsorized for the variable *ROA change* on the 95<sup>th</sup> and 5<sup>th</sup> percentile to reduce the influence of extreme values on the analysis. This was preferred over a total removal of outliers due to the small sample size.

## 5 Results

### 5.1 Descriptive statistics

Table 2 demonstrates descriptive statistics for domestic and cross-border acquisitions. On average, firms show a decline in ROA post-acquisition, with a mean *ROA change* of -0.111 for domestic and -0.195 for cross-border M&As. However, the *ROA change* varies substantially across the firms in the sample, ranging from significant declines to large positive impacts. The highest and lowest values are equal for both domestic and cross-border acquisitions, as a result of windsorizing the data on the 95<sup>th</sup> and 5<sup>th</sup> percentile, as outlined in Chapter 4.3.

Domestic cases naturally inherit the value zero for *cultural distance*. Cross-border cases,

on the other hand, have a mean of 1.844 with some variation. The highest cultural distance recorded is 4.292, which corresponds to an M&A between a Mexican and a Dutch firm. Other cases in the sample with high values are typically M&As involving firms in the US.

*Geographic distance* varies widely for both acquisition types, ranging from very short distances (e.g., 50 same-city deals) to as much as 13,087.7 km. Notably, the highest geographic distance of the domestic cases is 10 times as large as the shortest distance of cross-border acquisitions. This can be explained by the large territorial size of some countries in the region, allowing domestic deals to cover considerable distances.

Almost half of the cases took place in the years after the *financial crisis*, shown by the mean values of 0.44 for domestic and 0.48 for cross-border acquisitions. A significantly smaller proportion was recorded during the *pandemic crisis*, especially cross-border acquisitions. The mean of over 2 for *industry relatedness* suggests that acquirers prefer targets within the same industry group. On average, domestic acquisitions involve higher *deal values* and the variation in *acquirer size* indicates that both small and large acquirers engage in both acquisition types.

**Table 2: Means, standard deviations, min/max values, and number of observations.**

Variable	Domestic Acquisitions					Cross Border Acquisitions				
	N	Mean	Std.	Min	Max	N	Mean	Std.	Min	Max
ROA change	150	-0.111	1.120	-2.204	2.884	75	-0.195	1.043	-2.204	2.884
Cultural distance	150	0	0	0	0	75	1.874	0.850	0.795	4.292
Geographic distance	150	366.754	559.448	0.000	2663.99	75	4310.62	3055.59	208.993	13087.7
Financial crisis	150	0.440	0.498	0	1	75	0.48	0.503	0	1
Pandemic crisis	150	0.113	0.318	0	1	75	0.067	0.251	0	1
Industry relatedness	150	2.053	0.947	1	3	75	2.200	0.944	1	3
Acquirer size	150	13.991	1.911	7.119	19.557	75	14.759	2.024	9.149	19.981
Deal value	150	413.834	1771.51	0.001	17815.8	75	230.205	508.020	0.075	3425.19
Acquirer prof. prior	150	0.042	0.190	-1.523	0.668	75	0.058	0.085	-0.185	0.406

## 5.2 Correlations

Table 3 presents a Pearson correlation matrix showing the relationships and statistical significance between all regression variables. *ROA change* has a significant negative correlation with *geographic distance* ( $p= 0.045$ ) and *deal value* ( $p= 0.089$ ). There is also a highly significant ( $p< 0.01$ ) inverse relationship between *ROA change* and *acquirer profitability prior*. In isolation, there is no significant relationship between *ROA change* and *cultural distance*.

However, the latter is highly correlated with the second independent variable of this study, *geographic distance* ( $p < 0.01$ ). Therefore, this relationship must be addressed for multicollinearity. As shown in Table 6 in the Appendix, the performance of the Variance Inflation Factor (VIF) test does not indicate a high correlation, as the VIF for both variables is still far below a threshold of 5 (Daoud 2017). The *acquirer size* has a significant positive correlation with both the *cultural* ( $p < 0.01$ ) and *geographic distance* ( $p = 0.034$ ), which indicates that larger firms are more willing to acquire a target from a different cultural context or far away from their home country. Finally, the *acquirer size* positively influences the *deal value*, suggesting that larger acquirers have more possibilities to make larger deals.

**Table 3: Pearson correlation matrix.**

	ROA change	Cultural distance	Geo-graphic distance	Financial crisis	Pandemic crisis	Industry relatedness	Acquirer size	Deal value	Acquirer prof. prior
ROA change	1.0000								
Cultural distance	-0.0808	1.0000							
Geographic distance	-0.1338**	0.8102***	1.0000						
Financial crisis	0.0558	0.0702	0.0027	1.0000					
Pandemic crisis	0.0552	-0.0182	0.0634	-0.2998***	1.0000				
Industry relatedness	0.0649	0.0285	0.1221*	0.0149	-0.0515	1.0000			
Acquirer size	-0.0165	0.1724***	0.1412**	0.0233	0.0198	-0.0438	1.0000		
Deal value	-0.1136*	-0.0404	-0.0124	0.0532	-0.0103	0.1088	0.1976***	1.0000	
Acquirer prof. prior	-0.2156***	0.0607	0.1075	0.0673	0.0025	0.0228	0.0130	0.0589	1.0000

Note: \* = significance at a 10% level; \*\* = significance at a 5% level; \*\*\* = significance at a 1% level

### 5.3 Regression results

Table 4 presents the results of the multiple regression, which is overall highly significant ( $\text{Prob}(F) < 0.01$ ). It shows that *cultural distance* tends to have a positive relationship with performance, however, this result is not statistically significant ( $p = 0.517$ ). Therefore, Hypothesis I is not supported. Regarding the second hypothesis of this study, *geographic distance* has a weakly significant negative impact on performance ( $p = 0.085$ ). This suggests that greater geographic distance negatively influences performance, and Hypothesis II is

supported. The coefficient is very low (-0.00008), which can be attributed to the rather large input values for geographic distance. Further, *deal value* has an inverse relationship with performance ( $p = 0.068$ ), while *industry relatedness* shows a positive effect ( $p = 0.1$ ), both effects being weakly significant. *Acquirer profitability prior* is highly significant ( $p = 0.002$ ), with a negative impact on performance, indicating firms with high profitability before the M&A perform worse after.

**Table 4: Regression results on the effect on change in ROA.**

Change in ROA			
Independent Variables	Coefficients	Standard Error	p-value
Intercept	-0.56022	0.56336	0.321
Cultural distance	0.07948	0.12258	0.517
Geographic distance	-0.00008	0.00005	0.085*
Financial crisis	0.21909	0.14980	0.145
Pandemic crisis	0.37955	0.25132	0.132
Industry relatedness	0.12681	0.07670	0.100*
Acquirer size	0.01434	0.03722	0.700
Deal value	-0.00009	0.00005	0.068*
Acquirer profitability prior	-1.35612	0.44045	0.002***
N	225		
Prob(F)	0.0048		
R-Squared	0.0958		

Note: \* = significance at a 10% level; \*\* = significance at a 5% level; \*\*\* = significance at a 1% level

## 5.4 Robustness test

Following Thanos and Papadakis (2012), this study uses a second accounting-based measure, namely Sales Growth, to ensure robust findings and to see whether the variables affect more than one performance measure. Previously applied in research on cultural distance (Morosini, Shane, and H. Singh 1998) and further M&A studies (Wiklund and Shepherd 2009), Sales Growth is the compound annual growth rate (CAGR) of a firm's sales:

$$\text{Sales CAGR} = \frac{(\text{Sales}_{t+2})^{\frac{1}{n}}}{(\text{Sales}_{t-1})} - 1 \quad (5)$$

Sales are the total revenues generated by the firm and n are the number of years. For consistency, the same timeframe as in the prior analysis of the *change in ROA* is employed.

The results are presented in Table 7 in the Appendix. Consistent with the previous analysis, cultural distance remains insignificant ( $p = 0.812$ ). Geographic distance, however, is

no longer significant ( $p= 0.298$ ). Comparing the two accounting measures offers a possible explanation. *Change in ROA* is a profitability measure and includes the cost management of the firm, as can be seen in the formula, with net income as the numerator. In contrast, Sales Growth only reflects revenue growth. However, previous research suggests geographic distance increases costs (Johanson and Vahlne 1977), a factor not captured by Sales Growth. Therefore, the results of the robustness test may stem from the conceptual differences.

## **6 Discussion**

This chapter aims to discuss the findings that have previously been presented on the impact of cultural and geographic distance on M&A performance. The finding of an insignificant impact of *cultural distance* aligns with prior studies by Ahammad et al. (2016) and Markides and Ittner (1994), who did not find support for either positive or negative direct effects on M&A performance. Despite not being significant, cultural distance displays a performance enhancing tendency for the firms in the sample, contrary to prior expectations. This aligns with the literature arguing that the incentive for firms to focus on knowledge transfer is higher when a target's knowledge-based resources differ significantly from the acquirers as this enables the creation of unique capabilities (Morosini, Shane, and H. Singh 1998; Vermeulen and Barkema 2001). In turn, these can foster a firm's competitive advantage and potentially also its performance (Ahammad et al. 2016). This divergence in knowledge-based resources may be greater in culturally distant acquisitions due to the highly distinct practices embedded in the national cultural context (Kogut and H. Singh 1988). Further, particularly in the case of emerging market acquirers, it is also argued that they accept the tradeoff of targeting culturally distant countries if the corresponding market potential is sufficiently high, thus mitigating possible negative effects of cultural distance (Malhotra, Sivakumar, and Zhu 2011).

Nonetheless, the present study adds to the literature by showing that there is no statistically significant evidence for an effect of culture on long-term M&A performance in the

specific case of Latin American acquirers. This result deviates from Dakessian and Feldmann (2013), who found a significant negative effect on short-term performance. These distinct findings while focusing on the same region, are likely explained by the different conceptualization of performance and time windows applied, as argued by the findings of the meta-analysis by Stahl and Voigt (2008) and additionally by Z. Liu, Ding, and X. Zhang (2021), who obtained significant, but opposite results when applying a short-term and a long-term measure to assess effects on performance, even when other factors remained constant. Hence, comparing the results of this study directly to the findings of Dakessian and Feldmann (2013) is not appropriate. It should rather be seen as a complementary long-term analysis that provides findings on the effects of cultural distance on integration outcomes and synergy realization, which, as discussed, cannot be captured in short-term event studies due to the longitude of the M&A integration process (Jemison and Sitkin 1986; Morosini, Shane, and H. Singh 1998).

Moreover, the sample of this study shows how Latin American firms still focus on expanding within the region in recent years. Therefore, the main internationalization motive likely continues to be market-seeking as observed during the early stages of their multinationalization by Chudnovsky and López (2000), which deviates from findings on other emerging market acquirers. Those seem to increasingly focus on strategic asset-seeking, where a higher knowledge transfer is required (J. Li, P. Li, and B. Wang 2016; Luo and Tung 2007).

Among acquisitions with the highest cultural distance, a considerable number of cases involve US targets and Mexican acquirers. Even though the cultural distance between these countries is high when applying Hofstede's dimensions and should therefore, according to Hypothesis I, harm performance, there are a few aspects to consider. First, with the NAFTA agreement, the business ties between Mexico and the US were significantly strengthened. This economic partnership likely increased the experience of Mexican firms when operating in the US market (Milman et al. 2001). Second, Mexicans have been, for many years already, the

largest migrant group in the US, making up 23% of the total immigrant population in 2022 (MPI 2022). As a result, this deep-rooted connection may positively influence the acquisition outcomes and reduce the challenges associated with cultural distance. In conclusion, the results of this study highlight that the relationship between cultural distance and performance remains nuanced and challenging to assess (Ahammad et al. 2016).

The weakly significant findings on the negative effect of *geographic distance* on performance, however, offer support for literature arguing that greater geographic distance is associated with higher costs for the acquiring firm with regards to obtaining information (Johanson and Vahlne 1977) and integrating the target (A. Chakrabarti and Mitchell 2013). Further, it is in line with the majority of studies on the geography-performance relationship, which observe a negative impact of greater geographic distance (Kengelbach, Schwetzler, and Sperling 2010; Uysal, Kedia, and Panchapagesan 2008). The effect reported in this study is near zero with a coefficient of -0.00008, similar to Kukreja, Maheshwari, and A. Singh (2024). However, this must be seen in context. Given the vast distances in the sample, especially of the cross-border cases with a distance mean of 4310.62 km, but also the large geographic areas of countries within Latin America, the total effect on the *change in ROA* can be substantial. Thereby, the strand of literature arguing that the impact of geographic distance loses relevance due to advancements in information technology is not supported by the findings of this study (Coerdacier et al. 2009; Grosse and Trevino 1996; Y. Jiang and Noma 2024), particularly not in the context of geographical isolation, as in Latin America's case (Cuervo-Cazurra 2016).

Significant control variables exhibit expected effects supported by literature, including deal value, acquirer profitability prior, and industry relatedness. The negative impact of a higher *deal value* aligns with the idea that larger deals are more challenging to integrate (Ellis et al. 2011), particularly for less experienced firms in emerging markets (J. Li, P. Li, and B. Wang 2016). Further, the negative effect of *acquirer profitability prior* may support the view that

higher profitability leads managers to undertake more destructive investments (Jensen 1986). While the *financial* and *pandemic crises* were insignificant for the ROA change, they showed high significance during the robustness test with Sales Growth, indicating the sensitivity of the metric to external events.

Lastly, as can be seen from the R-squared in this study, 9.58% of the variance in performance is explained by the variables included in the model. This further supports past research highlighting the complexity of M&As and the wide range of factors affecting their outcomes, many of which are often overlooked (Stahl and Voigt 2008).

## **7 Conclusion**

This study examined the effect of cultural and geographic distance on the long-term M&A performance of Latin American firms and thereby contributed to reducing the imbalance between M&A studies in developed and emerging markets. While the effect of cultural distance on performance has been studied in the context of Latin America (Dakessian and Feldmann 2013), this study extends the existing literature by applying a long-term performance measure. Additionally, this study offers support to the underexplored assumption that acquisitions of geographically distant targets negatively affect M&A outcomes, potentially due to information asymmetry (Ragozzino 2009) and higher integration costs (A. Chakrabarti and Mitchell 2013).

The findings show that while cultural distance displayed a positive trend on the post-acquisition performance of the Latin American firms in the sample, this effect is not statistically significant. Contrastingly, geographic distance showed a weakly significant and negative effect on performance. These results underscore the continued relevance of geographic distance in M&A, particularly in the context of geographically isolated regions. This limits the frequently argued assumption that technological advancements diminish the importance of geographic distance (Grosse and Trevino 1996; Coeurdacier et al. 2009; Y. Jiang and Noma 2024).

There are a few limitations to this study, opening opportunities for future research. First,

while change in ROA is seen as an adequate measure for performance in M&A research, it assesses the overall performance of a firm rather than the outcomes of a specific acquisition. This can be problematic when firms engage in multiple transactions within a short timeframe (Thanos and Papadakis 2012). Additionally, the application of various accounting measures in M&A studies complicates the comparison of the findings obtained in this study to other results (Tuch and O'Sullivan 2007). Second, using accounting-based measures allows for the inclusion of private companies in the final sample. However, the financial information available on Orbis was limited. Therefore, there is a predominance of public firms in the sample, which may affect the results as they tend to offer higher bids for targets than private acquirers (Bargeron et al. 2008). Third, this study relies solely on Hofstede's framework to measure cultural distance. Some studies further apply different measures of culture, such as the GLOBE dimensions. However, this framework excludes countries like Chile and Peru and hence, limits its applicability in studies of the Latin American context. Fourth, the timeframe to analyze the change in ROA was selected to enable a long-term analysis, while still being short enough to limit the influence of other events on the findings. However, there is a lack of consensus on the optimal period to assess performance in M&A literature (Thanos and Papadakis 2012). Lastly, 20 M&As in the sample involve targets outside Latin America, suggesting that future research could explore the effects of distance further by expanding the timeframe to include more interregional acquisitions. This presents challenges, as obtaining reliable financial data becomes increasingly difficult the further back in time the transactions occurred. However, addressing this could pave the way for more comprehensive findings in future studies.

In conclusion, this research provides valuable insights into the complexities of M&As in the Latin American context, encouraging further exploration of possible mitigating factors on geographic distance, such as industry characteristics, experience of the acquirer, and financial information related to the target.

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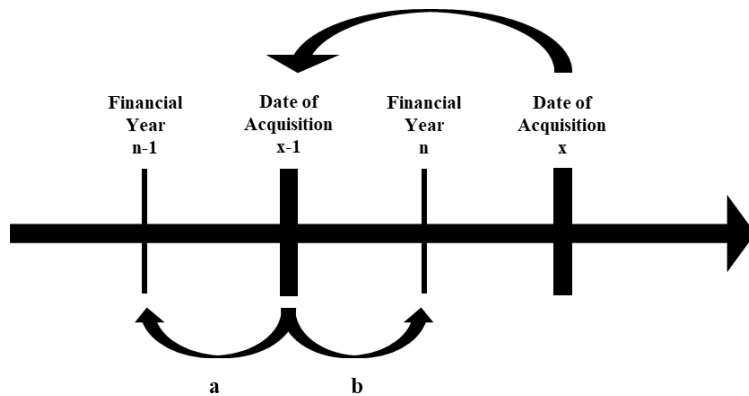
## Appendix

**Table 5: Hofstede’s cultural dimensions.**

Power Distance (PDI)	Uncertainty Avoidance (UAI)	Individualism vs. Collectivism	Masculinity vs. Femininity
The extent to which lower ranked members of a group are willing to accept unequal distribution of power. A higher PDI indicates that subordinates are expected to act according to what they are instructed to do.	Describes how comfortable members of a group are with ambiguity and unstructured situations. A higher UAI is characterized by a high need for structured approaches, rules, and clarity.	Individualist cultures are characterized by a low interdependence between individuals in society. There exists an expectation to express personal opinions and a mindset, in which the task is more important than relationships.	Masculinity describes cultures with a high work orientation and gaps between the values and the roles of men and women. Femininity describes a culture where people strive for a work-life balance and the values and role perceptions between men and women are shared.

Source: Adapted from G. H. Hofstede (2011).

**Figure 1: Choice of cut-off dates for data collection.**



Note: The decision for the financial year selection is based on the calculation of  $\min(a,b)$ .

**Table 6: VIF values for independent variables.**

Variable	VIF	1/VIF
Cultural distance	3.07	0.32558
Geographic distance	3.10	0.32225
Financial crisis	1.12	0.89560
Pandemic crisis	1.12	0.89382
Industry relatedness	1.05	0.94944
Acquirer size	1.08	0.92257
Deal value	1.07	0.93477
Acquirer profitability prior	1.02	0.97798
<b>Mean VIF</b>	1.58	

**Table 7: Robustness test with Sales Growth as the performance measure.**

<b>Sales CAGR</b>			
<b>Independent Variables</b>	<b>Coefficients</b>	<b>Standard Error</b>	<b>p-value</b>
Intercept	0.35211	0.08197	<i>0.000***</i>
Cultural distance	0.00425	0.01784	<i>0.812</i>
Geographic distance	-0.00001	0.00001	<i>0.298</i>
Financial crisis	0.14061	0.02180	<i>0.000***</i>
Pandemic crisis	0.11394	0.03657	<i>0.002***</i>
Industry relatedness	-0.00398	0.01116	<i>0.721</i>
Acquirer size	-0.02130	0.00542	<i>0.000***</i>
Deal value	0.00001	0.00001	<i>0.044**</i>
Acquirer profitability prior	0.08274	0.06409	<i>0.198</i>
N	225		
Prob(F)	0.0000		
R-Squared	0.2373		