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Three Essays on Internationalization strategies: International market selection and entry modes

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Dissertation abstract

This dissertation delves into international market selection and strategic growth methods. The initial study develops a comprehensive international market selection model. The subsequent two studies investigate the intricate relationship between alliances and M&As. One assesses post-acquisition performance of previous alliances, while the other analyses factors influencing the transition from partner to target. Using diverse databases and employing various empirical methods, this dissertation deepens understanding of firm internationalization strategies. Key findings emphasize the importance of considering entry mode and market selection simultaneously. Furthermore, the thesis highlights the positive impact of familiarity in previous alliances with targets and in partner-to-target transition decisions.

Keywords: international market selection; strategic alliances; mergers and acquisitions; internationalization.

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Overall Introduction

This thesis contributes to the existing body of knowledge in international business and strategy. More specifically, it focuses on enhancing our understanding to market selection and strategic growth methods. It comprises a cover story and three separate but interrelated studies: (1) the development of international market selection models that consider multiple entry modes, (2) the investigation of the performance-enhancing impact of prior alliances with the target on post-acquisition performance, and (3) the exploration of the factors that facilitate the transition from strategic alliances to mergers and acquisitions (M&As).

The first study focus on International Market Selection (IMS) – a critical process for evaluating foreign market potential and aiding firms in identifying promising destinations for international expansion (Andersen and Strandskov, 1998). Most of IMS models operate under the assumption of a stable environment and employ a step-by-step decision-making approach (e.g., Andersen and Buvik, 2002; Cavusgil et al., 2004; He and Wei, 2011; Kumal et al., 1994; Papadopoulos et al., 2002; Robertson and Wood 2001; Westhead et al., 2002). The prevailing perspective in IMS suggests that firms should initially identify their target market and then determine the appropriate entry mode later on. Nonetheless, I challenge the prevailing perspective in International Market Selection (IMS) due to its inherent limitations. More precisely, I posit that the choice of market selection and entry modes should be regarded as concurrent decisions (Leiblein et al., 2022) rather than as sequential and independent decisions, as typically assumed in conventional IMS models. To address this issue, I propose a multi-dimensional and dynamic IMS model that integrates both aspects, enhancing adaptability and optimization. In this study, I examined a sample comprising 87

countries and analysed 30 variables related to various entry modes, including export and foreign direct investment (FDI). By categorizing countries as either “analogous markets” or “distinct markets” based on the attractiveness of different entry modes, I facilitate the identification of market with varying degrees of appeal concerning various entry modes during the market selection phase. Our results emphasize the importance of carefully considering the impact of entry mode selection on the international market selection process, particularly when the attractiveness of various entry modes varies. This multi-dimensional IMS approach empowers firms to make well-informed decisions accordingly.

After selecting a target market, as outlined in the IMS model, the company confronts the decision of international expansion. If the choice is to pursue foreign direct investment, the critical consideration becomes whether a suitable target firm in the host market is available for acquisition. This decision involves evaluating whether to establish an alliance with this potential partner or to proceed with a direct acquisition. In studies 2 and 3, a more in-depth analysis is conducted to explore how these two growth methods, traditionally perceived as independent (Yang et al., 2010), can be interconnected.

The second study contributes to the existing body of literature analysing the positive relationship between previous strategic alliances and post-acquisition performance (e.g., Al-Laham et al., 2010; He et al., 2020; Porrini, 2004). Existing theoretical perspectives offer various explanations for the impact of prior alliances with target companies on post-acquisition performance. On the one hand, organizational learning emphasizes that prior strategic alliances allow the acquiring firm to learn from the target company, gaining new technological knowledge and skills (e.g., Meschi et al., 2018; Porrini,

2004). On the other hand, relational learning focuses on the acquiring firm's understanding of the target firm's working methods, culture, leadership styles, and overall organizational dynamics, i.e., learning about the target, facilitating the formation of psychological contracts and mutual understanding (e.g., Angwin and Meadows, 2015; Mirc et al., 2022; Puranam et al., 2009). To reconcile these perspectives, I explore the moderating role of familiarity. While recognizing the importance of acquiring new knowledge and skills in all alliances, I argue that building trust and understanding with the target firm is especially important in pre-acquisition alliances. As a result, post-acquisition performance will be largely influenced by the acquiring firm's familiarity with the partner's context, thereby enhancing the conditions for learning about the partner. I hypothesize that cultural and market familiarity positively moderate the relationship from pre-acquisition alliances and post-acquisition performance. Using data from SDC Platinum, EIKON, and ORBIS, covering 712 majority or full acquisitions, I find strong support for our hypotheses. Specifically, pre-acquisition alliances are most effective in domestic and industrially related acquisitions. Additionally, the benefit of previous strategic alliances diminishes as cultural distance increases. These findings hold up under various matching techniques and have substantial implications for both scholars and practitioners.

The third study contributes to the existing literature on the transition from partner to target (Noseleit et al., 2023; Ragozzino and Moschieri, 2014). It investigates the factors that facilitate or hinder this transition, focusing on familiarity and the varying importance of time efficiency in the high-tech industry. Familiarity includes previous alliances with the same partner, the focal firm's acquisition experience, and industry relatedness between alliance partners. I propose that a greater number of alliances with

the same partner, the focal firm's acquisition experience, and higher industry relatedness increase the likelihood of transitioning to an acquisition. Furthermore, I examine timing-related factors in the high-tech industry, suggesting that high-tech firms are less likely to transition to M&A after forming strategic alliances due to the industry's high uncertainties and rapid changes.

To test our hypotheses, a database is created by merging alliance and acquisition data from the Securities Data Corporation (SDC) for the period 2005-2022. Our analysis covers 70,240 worldwide alliance cases, with 1,957 of these cases resulting in a merger or acquisition, resulting in an overall alliance-to-M&A conversion rate of 2.8%. I employed logistic regression and machine-learning random forest models to test our hypotheses. The results indicate a positive influence of multiple alliances, acquisition experience, and industry similarity on the transition from an alliance to an acquisition. However, in the case of the high-tech industry, a negative impact was observed, which was statistically significant in acquisition cases but not in merger cases.

In the following section of the thesis, I provide background information on international market selection, strategic alliances, M&As, and their relationships. Next, I outline the main research gap and research question for each study. This will be followed by the presentation of three full empirical papers, and finally, I will conclude with an overall summary and propose further research directions for the thesis.

1.1 Background information

1.1.1 International Market Selection

International Market Selection (IMS) involves the process of establishing criteria for selecting foreign markets, investigating their potentials, classifying them according to the established criteria, and determining which market should be targeted first and which are suitable for later development (Andersen & Strandskov, 1998). When firms plan to enter a new international market, they face numerous potential markets to consider. However, due to constraints such as limited resources and time, it is often impractical to conduct in-depth analyses of all available markets, considering there are over 200 countries and areas worldwide. The International Market Selection framework, therefore, provides valuable guidance for efficiently and effectively evaluating potential markets when firms seek to expand their international activities into new territories (Papadopoulos and Denis, 1988).

The literature on International Market Selection (IMS) provides a range of methodologies and models to assist firms in their decision-making processes during market selection and internationalization. It primarily supports firms in a multi-stage evaluation and selection process for foreign markets (e.g., Cavusgil et al., 2004). The prevailing perspective suggests that the choice of entry modes typically occurs only after the final target market has been identified (Kumar et al., 1994; Papadopoulos and Denis, 1988; Papadopoulos and Martín, 2011). For instance, companies initially narrow down the list of potential markets to a manageable number by ranking potential countries based on selected criteria and weighting. Subsequently, they focus on the most promising countries for a more detailed market analysis. This process leads to the selection of the next market to enter, followed by decisions related to entry modes,

market planning, financial planning, and other critical steps necessary to complete the internationalization process.

In general, IMS plays a pivotal role in various aspects of a firm’s internationalization process, determining the success or failure of their market expansion efforts and shaping the trajectory of the firm's further development within its global competitive strategy position (Cavusgil et al., 2004; Papadopoulos and Denis, 1988).

1.1.2 Strategic Alliances

Strategic alliances are voluntary arrangements between firms involving the exchange, sharing, or co-development of products, technology, or services (Gulati, 1998). They have attracted considerable attention from both academics and practitioners over the past three decades (He et al., 2023) and represent a multifaceted concept encompassing a wide array of partnerships involving various types across inter-firm or inter-organizational boundaries (He et al., 2023; Koka and Prescott, 2002). For example, strategic alliances can be categorized into equity-based alliances, such as joint ventures where two or more organizations establish an independent business entity, and contractual alliances, including licensing, franchising, manufacturing, marketing, research and development (R&D), and technology transfer (Gomes et al., 2021; Porrini, 2004). Each type of alliance has its own advantages and disadvantages, differing in terms of the level of control, commitment among partners, and their lifetime (Gomes et al., 2011).

The number of strategic alliances is increasing annually (Zineldin and Dodourova, 2005). As Toshiba's chairman of the board of directors has indicated, 'It is no longer an era in which a single company can dominate any technology or business by itself.

Technology has become so advanced, and markets so complex, that you simply can't expect to be the best at the whole process any longer.' Strategic alliances offer numerous benefits, including facilitating market entry, reducing risks, gaining competitive advantages, enabling knowledge transfer, promoting inter-organizational learning, and reducing disparities between information and knowledge (Inkpen, 2000; Ratten and Suseno, 2006).

1.1.3 Mergers and acquisitions

Mergers and acquisitions (M&As) refers to the consolidation of companies or their major business assets through financial transactions between companies. M&As can be an effective way of growing business such as gain access to new market, technologies and resources (Gomes et al., 2011). While the popularity of M&A continues to grow (60,686 M&A cases worldwide, SDC, 2022), their success rate remains dismal (King et al., 2004). The high failure rate can be attributed to the complex, multilevel, multifaced, and multitemporal nature of M&As (Haleblian et al., 2009; King et al., 2004; Shi et al., 2012; Stahl and Voight, 2008). Over the years, numerous scholars have sought to understand various pre-acquisition factors, including acquisition experience (e.g., Hayward, 2002), target selection and evaluation (e.g., Cuypers et al., 2017; Gomes et al., 2020), communication strategies (e.g., Angwin et al., 2014), employee identity and reaction (e.g., Rouzies, 2011; Teerikangas, 2012), industry relatedness (e.g., Cefis et al., 2020), the price paid (Hayward, 2002; Seth et al., 2000), method of payment (e.g., Datta et al., 1992), and future compensation policy (e.g., Devers et al., 2007). While some others have focused their attention on post- acquisition factors such as integration strategies and decisions (e.g., Angwin and Meadow 2015; Puranam et al., 2006; Vaara, 2003; Zollo and Singh, 2004), dynamics of post-acquisition integration (e.g., Rouzies et

al., 2018), justice in integration period (e.g., Monin et al., 2013), speed of implementation (e.g., Homburg and Bucerius, 2005); post-acquisition leadership (e.g., Angwin and Meadows, 2009; Krug and Nigh, 2001), and managing corporate and national cultural differences (e.g., Angwin and Vaara, 2005; Graebner and Eisenhardt, 2004; Kroon et al., 2009, 2015; Kogut and Singh, 1988; Puranam et al., 2006). However, despite these invaluable contributions, M&A research often remains fragmented within established boundaries (King et al., 2018) and lacks interconnectedness (Gomes et al., 2013).

1.1.4 Connections between IMS, strategic alliances, and M&As

After selecting the appropriate international markets to enter, companies must carefully consider their mode of entry. Various entry modes are available, including exports, strategic alliances, and foreign direct investment (FDI) options, such as mergers and acquisitions. These entry modes differ in terms of the level of commitment and risk they entail (Gomes et al., 2011). While exports involve the lowest level of control and resource commitment, they offer a high degree of flexibility and entail lower risk. In contrast, mergers and acquisitions (M&As) provide full control and require substantial resource commitment but offer less flexibility and come with a higher level of risk.

The classical Uppsala model in internationalization literature suggests that small and medium-sized enterprises (SMEs) with limited international experience often commence their internationalization journey by exporting to foreign markets due to the lowest associated risk compared to other entry modes. As they accumulate international experience, firms tend to adopt entry modes that offer greater control and commitment, such as strategic alliances, or at a higher level, the acquisition of companies in the target

market. Alliances allow for partial control of the partner, while acquisitions afford complete ownership control of assets (Yin and Shanley, 2008).

Both strategic alliances and mergers and acquisitions (M&As) are critical strategic decisions for organizational leaders. They have long been considered as alternative options (Yang et al., 2010), with companies choosing to either forge partnerships through strategic alliances or acquire other companies. Although scholars in the fields of strategic alliances and M&As have made invaluable theoretical and methodological contributions, their connections are often overlooked (Gomes et al., 2013). It's only been in recent years that a new stream of M&A literature has emerged, with some scholars devoting their attention to understanding the performance implications when the acquiring and acquired firms have enjoyed a strategic alliance (often referred to as a 'courtship period') before the acquisition. Following the seminar paper by Porrini (2004), a few other studies, adopting an organizational learning perspective, have shed light on how a prior alliance with the target can improve the subsequent acquisition. Such prior alliances provide both the acquirers and targets with opportunities to learn new knowledge and capabilities (Al-Laham et al., 2010), reduce information asymmetry through resource exchange (Gomes-Casseres et al., 2006), thereby reducing uncertainty and opportunism (Conner and Prahalad, 1996), and contributing to the acquirer's long-term profitability and growth (He et al., 2019).

In general, international market selection, strategic alliances, and M&As are important aspects within the fields of strategy and international business studies that relate to a firm's internationalization decisions and processes. However, most studies tend to focus on these aspects separately, without attempting to provide a more comprehensive and integrated perspective that considers each part within the

internationalization process and their interconnections. For instance, the interrelationships between international market selection and entry modes, the significance of alliances and M&As as internationalization decisions for decision-makers, and their correlations, remain fragmented and underdeveloped. Therefore, the primary purpose of this thesis is to further investigate the key aspects in internationalization literature, namely international market selection, strategic alliances, M&As, and their interrelationships.

1.2 Research questions

Study I. Optimizing International Market Selection: A Dynamic Approach Integrating Export and FDI Entry Modes

Previous investigations have enriched IMS research from various perspectives and made significant contributions to the IMS literature. They have raised awareness about the importance of employing a more systematic approach to market selection (e.g., Clark et al., 2018; Papadopoulos et al., 2002), as well as different methodologies for comprehensively optimizing the decision-making process. These methodologies involve combining macro and micro data and applying innovative techniques (e.g., Brouthers et al., 2009; Gripsrud and Benito, 2005; Marchi et al., 2014).

However, despite these contributions, IMS is still often regarded as an independent process, relatively separate from other aspects of the internationalization process, such as entry mode decisions. This lack of connectedness leads to a classic "chicken or egg first" question: If companies always decide on the international market first and entry mode later, how can they appropriately select criteria (some of which are more related to export and some more related to FDI) to conduct a proper country scan and choose the suitable market to enter?

The objective of this study is to address the dilemma surrounding the order of consideration between 'IMS first or entry mode first.' Our aim is to develop a flexible and multidimensional model based on a contingent perspective to assist companies in making more appropriate choices for international market selection while simultaneously considering different entry modes, specifically export and foreign direct investment (FDI). Through the use of empirical methods such as indexes and rankings, the key findings of this study emphasize that, while most host markets are equally

(un)attractive for export and FDI, some markets require special attention. They may be extremely attractive for one entry mode but unattractive for the other.

The key finding underscores the importance of taking entry modes into consideration in the market selection process. Instead of following a step-by-step decision model, it is essential to adopt a contingent perspective and consider market selection and entry modes simultaneously to make a more appropriate market selection decision.

Study II. Learning 'From' vs. Learning 'About' Partners in Pre-Acquisition Strategic Alliances: The role of familiarity

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Scholars in both the fields of strategic alliances and M&A have suggested the benefits gained from previous alliances with a target from different perspectives. On one hand, the organizational learning perspective suggests that learning takes place during the preceding alliance phase with the acquisition target by sharing information and resources, leading to the generation of knowledge and skills (Inkpen, 1999; Tsang, 1999). Therefore, the more different the two alliance partners are, the more they can learn from each other.

On the other hand, the relational learning perspective suggests that learning about the partner's working style, culture, leadership style, and overall organizational dynamics (Mirc, 2012) contributes to the generation of trust, mutual understanding, common ground (Puranam et al., 2009), and the development of psychological contracts (Rousseau, 1990, 1995). These factors help in the subsequent acquisition integration process and benefit post-acquisition performance. Unlike organizational learning, which emphasizes learning from unfamiliar contexts (Muehlfeld et al., 2012), relational

learning assumes that a more familiar context fosters trust, common ground, and the development of psychological contracts (Bal et al., 2013).

Consequently, companies can simultaneously 'learn from' their partners through organizational learning and 'learn about' their partners through relational learning during alliance relationships. Notably, previous research has often overlooked the contextual factor of familiarity in both the alliance and subsequent acquisition stages and its contribution to post-acquisition performance. Our research aims to address this issue by examining the role of familiarity. Our primary objective is to comprehensively explore these contextual factors, seeking to enhance our understanding of the intricate learning mechanisms involved in the alliance-to-M&A process.

The results highlight that, though there is a higher potential for learning when the two companies are more different, the enhancing effect of a previous alliance with the target on post-acquisition performance is stronger when the two companies are from the same country and industry, creating a more familiar context.

Study III. Dating, Break-up, or Get Married: Factors Explaining Strategic Alliances Turning into M&As

A growing body of scholars who have bridged the strategic alliance and M&A literature has identified a trend: when the acquiring company establishes an alliance relationship with the target before the acquisition, post-acquisition performance tends to be better (e.g., Al-Laham et al., 2010; He et al., 2020; Porrini, 2004). If an M&A is likened to a corporate marriage, a previous strategic alliance with the target is akin to the courtship phase, during which the two companies have the opportunity to get to know each other by accessing information and resources. This process facilitates the acquisition of knowledge and skills (Anand and Khanna, 2000; Kale and Singh, 2000).

More importantly, this pre-acquisition alliance phase contributes to the cultivation of trust and the establishment of common ground (Puranam et al., 2009), which is beneficial for a smoother integration process and an increase in post-acquisition performance.

However, despite the numerous benefits gained from previous alliances with the target, as indicated by several scholars (Noseleit et al., 2023; Rogozzino and Moschieri, 2014), the partner-to-target transition rate remains low in reality. The outcomes of strategic alliances can include pending, termination, expiration, renegotiation, completion, or extension, with very few of them ultimately transitioning to M&A (only 2.79% based on calculations from SDC data). This disparity between the pronounced benefits of prior alliances and the low transition rate in reality motivates the research question of this study: What factors hinder or facilitate the partner-to-target transition? This study aims to answer this question by primarily focusing on two aspects: experience and industry. The results reveal that the cumulative number of alliances with a partner and whether one company in the alliance is an experienced acquirer increase the probability of a partner-to-target transition. Additionally, the more similar the industries of the two companies, the more likely the alliance ends up with M&A. These findings suggest that the transition is more likely to occur in a familiar context. Moreover, the high-tech industry tends to directly acquire the target rather than build a long-term alliance relationship due to the uncertainty and rapid changes in this industry. This indicates that timing is a critical factor in the partner-to-target transition decision.

Figure 1 summarizes the main research question and information of each study in the thesis:

	Main Research Question	*Research Methods*	*Data*	*Co-authors*
Paper I	How to address the 'chicken or egg first' question in international market selection research and develop a multi-dimensional, flexible IMS method as a solution.	Quantitative: • Country ranking • Separate markets by their distances to the 45° line	• 30 variables (10 common variables, 10 export-related variables, and 10 FDI-related variables • 87 countries	• Emanuel Gomes (Nova SBE) • Ferran Vendrell-Herrero (University of Edinburgh)
Paper II	What do we learn 'from' partners and what do we learn 'about' partners in a previous alliance with an acquisition target, and what is the moderating role of familiarity in this process?	Quantitative: • Regression model • Propensity Score Matching- One to One and Kernel • Coarsened Exact Matching	• Approximately 30,000 M&A cases per year, from 2005 to 2018 • Approximately 2,000 alliances cases per year, from 2005 to 2008.	• Emanuel Gomes (Nova SBE) • Ferran Vendrell-Herrero (University of Edinburgh)
Paper III	What factors foster or hinder the transition from a strategic alliance to an M&A?	Quantitative: • Regression model • Machine learning – Random Forest	• 70,240 historical alliance data from 2005 to 2020 • 1957 alliances transitioned into M&A cases	• Emanuel Gomes (Nova SBE) • Ferran Vendrell-Herrero (University of Edinburgh)

Figure 1. Research Questions, Methods, Data, and Co-authors

Study I: Optimizing International Market Selection: A Dynamic Approach Integrating Export and FDI Entry Modes

2.1 Introduction

Exploring foreign markets is essential for companies aspiring to expand globally. This is not only crucial for smaller firms venturing into international territory but also for larger, established entities seeking to enhance their global footprint. International Market Selection (IMS) assumes a pivotal role within the realm of international expansion (Sousa and Lages, 2011), aiding firms in evaluating the appeal of foreign markets and assisting in the identification of those with the highest potential.

The IMS literature offers a spectrum of methodologies and models to facilitate firms in their decision-making during the market selection and internationalization processes (e.g., Andersen and Buvik, 2002; Cavusgil et al., 2004; He and Wei, 2011; Kumar et al., 1994; Papadopoulos et al., 2002; Robertson and Wood 2001; Westhead et al., 2002). It primarily aids firms in a multiple stage process of evaluation and selection of the foreign market (see Cavusgil et al., 2004 for a detailed step-by-step analysis). The prevailing perspective implies that the selection of entry modes occurs only after the final target market has been chosen (Kumar et al., 1994; Papadopoulos and Denis, 1988; Papadopoulos and Martín, 2011). Putting it in Kotler's words: "There is only one winning strategy. It is to carefully define the target market and direct a superior offering to that target market".

However, this widely adopted process of IMS raises a fundamental question: if the entry mode decision is made only after the target market has been chosen, how should the initial country screening be conducted to identify the best market irrespective the entry mode? This is pivotal, as commonly used variables in market selection may be

more appropriate for certain entry modes. This challenge intensifies when firms are uncertain about the entry mode at the IMS stage. For instance Starbucks used different entry modes for their initial international expansion, entering through licensing in New Zealand (1998), through acquisitions of Seattle Coffee in the UK (1998) and through partnership with VIPS group in Spain (2001). In contrast, in cases where the entry mode has been decided from the outset— for instance, a firm that, due to a lack of international experience and resource scarcity, decides a priori to internationalize through exports— it can make use of export-related variables, such as market size, receptivity, and openness to trade (see Robertson & Wood, 2001 for a study on information used by international managers when choosing export markets). On the contrary, if FDI types of entry modes could also be considered, then it would be important to consider other types of variables, such as country risk, political stability, commercial infrastructure, ease of doing business, and others.

The Starbucks example illustrates the inseparable nature of the target market decision from the entry mode decision. This observation is further underscored by Leiblein et al. (2022), who, contrary to conventional IMS approaches, found an interrelation between location and governance decisions. This implies that one does not precede the other; instead, they need to be deliberated concurrently. So, deciding on a target market without considering entry mode suitability may be an inadequate approach. Similarly, selecting the entry mode before deciding the target market, may also be inappropriate. Hence, this paper aims to propose of a model considering the simultaneity of the decisions about where to go and how to enter the foreign market.

We propose an IMS approach that, while primarily centered on identifying a target market, integrates considerations for both entry mode and target market. This approach

offers increased adaptability and optimization, allowing for the possibility of making both decisions simultaneously and coherently. By doing so, we address the limitations of traditional IMS approaches, presenting firms with a more robust framework for effective international market selection. We elucidate our novel approach by employing a dataset encompassing 87 prospective markets and incorporating 30 country variables. To facilitate comprehension and demonstrative intent, our empirical analysis is centered on a two-dimensional model, focusing on potential entry modes like exports and FDI. However, it is noteworthy that the same rationale and methodology can be extended to three-dimensional, and potentially more, approaches, which would enable to consider different types of equity and non-equity entry modes.

The study presents significant contributions on two primary fronts. First, it identifies and addresses a notable gap within the widely accepted sequence outlined in internationalization literature (Cavusgil et al., 2004; Gaston-Breton & Martín, 2011). This gap underscores the necessity of regarding the selection of international entry mode and market as inseparable decisions that must be made in conjunction (Leiblein et al., 2022). By recognizing this gap, our objective is to reconcile these two aspects by concentrating on the limitations within the prevailing IMS process as it pertains to firm internationalization. Our methodology encompasses the creation of a flexible IMS framework, empowering firms to prudently choose the most fitting international market, contingent on a variety of potential entry modes. This aspect holds significant relevance within the swiftly changing landscape of international business today.

Second, we adopt a contingent perspective and introduce a model for international market selection that is dynamic and adaptable (e.g., Surdu et al., 2021). This approach is a response to the criticism levelled at classical models, which are critiqued for their

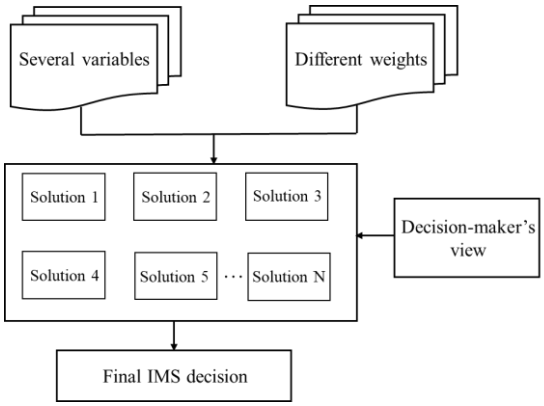
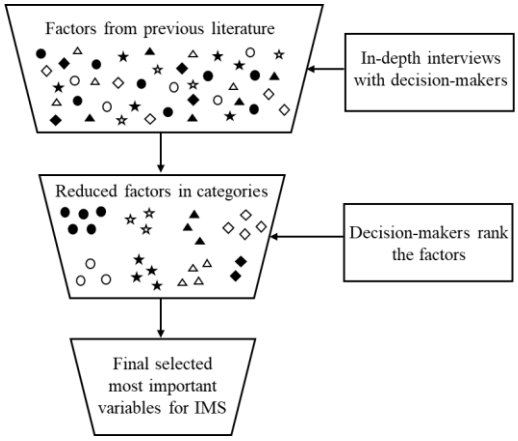
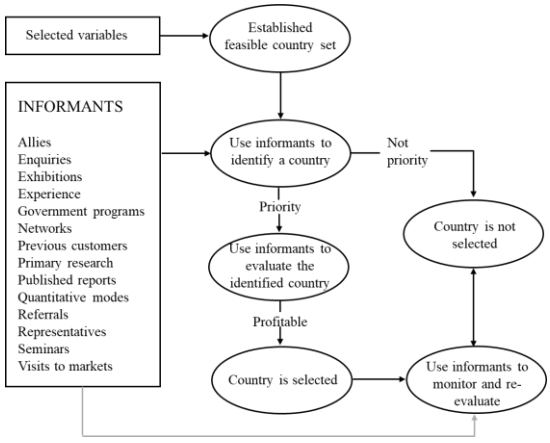
static nature and rigid adherence to a step-by-step decision-making process. Instead of rigidly attempting to determine whether market selection or entry mode decision comes first, we embrace a contingent approach by integrating and accommodating both critical steps. This approach frees firms from the constraints of a predetermined order of market selection and entry modes. Consequently, firms have greater flexibility in selecting criteria that align precisely with their unique needs and circumstances.

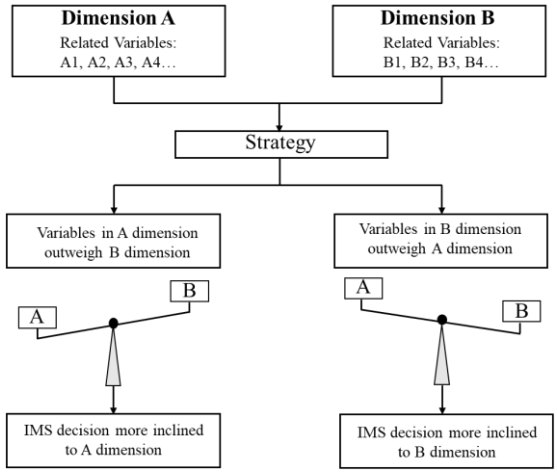
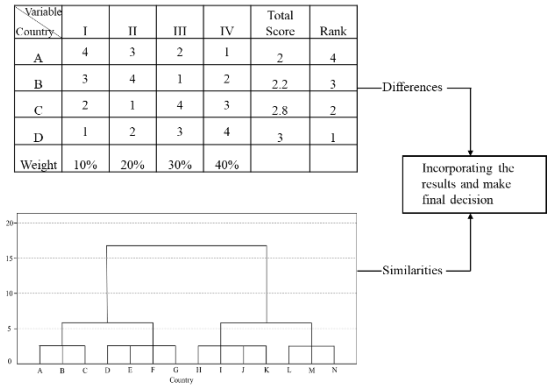
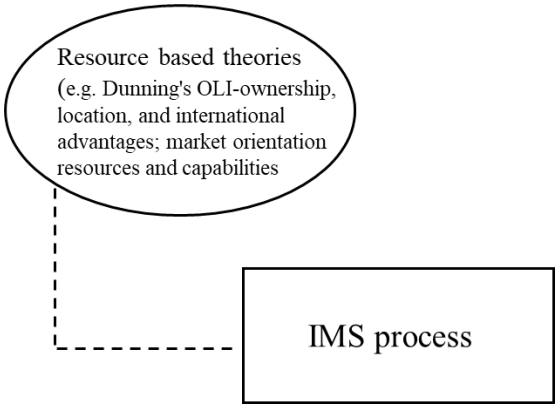
In the following section, we review the main literature and methodologies in the IMS study. Then, we summarize the main limitations and present the rationale for the method and its functionality. Next, we present generic data to offer exemplar applications. Subsequently, we present the analysis and results, elaborating on how markets differed based on the varying attractiveness of entry modes. Finally, we discuss the main implications, limitations, and directions for further studies.

2.2 Background Literature

Current academic investigations into International Market Selection (IMS) predominantly centre on the following dimensions: (1) the imperative to methodize the IMS procedure; (2) enhancing the IMS procedure by incorporating macro and micro data or amalgamating objective and perceptual assessments; (3) methodologies and strategies for refining the market selection process; and (4) harmonizing pertinent theories with the extant IMS corpus to augment IMS research. The scholarship concerning these four dimensions of IMS research is encapsulated in Table 1, where these corresponding IMS models are also depicted. The specifics of each scholarly work, encompassing the data and methodology, along with whether they accounted for entry modes at the IMS stage and their default entry modes, are concisely presented in Table 2. Subsequently, we proceed to expound upon each of these components in turn.

Table 1. Representative IS models in the past 30 years

Graphical illustration	Illustration	Implication
Mix of systematic and non-systematic approaches: decision-maker's interaction in the process		
	Apply various variables and weights during the process and propose diverse solutions. The firm's decision-maker remains actively engaged until they are satisfied with the outcome and choose to proceed (Kumar et al., 1994).	An interactive and dynamic process that incorporates decision-makers' views into the systematic IMS process.
Mix of systematic and non-systematic approaches: in-depth interview and questionnaires		
	Conduct in-depth interviews with managers to reduce the large number of factors considered important for exporting firms in the IMS process. Subsequently, categorize these factors into different groups and have managers rank these variables based on their importance (Robertson et al., 2001).	This process combines interviews and questionnaire data to filter out the most important factors in the IMS process.
Mix of systematic and non-systematic approaches: use informants to decide the market		
	This process begins by mapping the IMS decision process and defining the relevant selection criteria through interviews, and subsequently employs informants to identify the final country (Brewer, 2001).	Different informants provide diverse data sources for the country selection process.

Trade-off model		
	This two-dimensional model comprises distinct variables within each dimension. For instance, one dimension may include 'demand potential,' while the other may encompass 'trade barriers' (Papadopoulos, 2002). The firm must ascertain which variables hold greater significance according to its own strategy in order to select the final market.	The trade-off model enables companies to select essential variables tailored to their specific stages. It can be applied to a specific case, taking into account industry-specific and product-related information
Complementary model		
	The combination of two complementary approaches involves country ranking, which highlights differences among countries, and country clustering, which identifies similarities. The final decision is made by comparing the results of these two approaches (Cavusgil et al., 2004).	Differences among countries help distinguish varying levels of market attractiveness, while similarities enable firms to apply their prior experience in similar markets to new ones.
Resource-based theories incorporated to IMS process		
	Brouthers et al. (2009) aligned the OLI framework (ownership, location, and international advantages) with the IMS process and compared subsidiary performance with and without these resources. He et al. (2011) emphasized the significance of Market Orientation resources and capabilities in the IMS process.	Extending the traditional IMS process with resource-based theories helps companies make more appropriate IMS decisions by considering various internal and external resources.

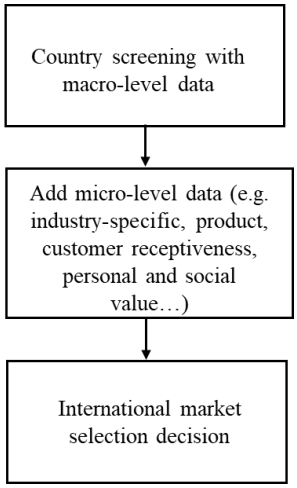
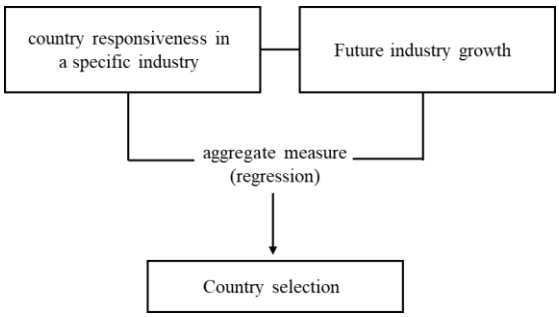
2-stage model combined macro- and micro-data		
	This two-stage model initially screens all potential markets using macro-level data and subsequently incorporates micro-level data, such as industry, product, and customer-related information, to make the final decision (Gaston-Breton and Martín Martín, 2011; Sakarya et al., 2007).	This model overcomes limitations by incorporating not only macro data but also the firm's industries, products, and customer characteristics into the IMS process.
Industry based 3-stage model		
	This is an industry-based model with three steps: first, collecting data on country responsiveness within a specific industry; second, estimating further industry growth; and third, combining steps 1 and 2 using aggregate measures, such as regression models, to aid in IMS decision-making (Ozturk et al., 2015).	This model allows firms to incorporate micro data, such as industry-specific information, into the IMS process.

Table 2. Summary of Important studies in IMS

Literature	Entry modes	Data			Methodology		
		Macro (country or market data)	Micro (industry, strategy, or customer)	Qualitative (interview, survey, or questionnaire)	Conceptual	Empirical	Methods
Papadopoulos and Denis (1988)	---				●		Review previous methodologies
Kumar et al., (1994)	Export	●		●		●	Ranking with managers' interaction
O'Farrel and Wood (1994)	---	●			●		Review IMS factors for service companies.
Robertson and Wood (2001)	Export			●		●	In-depth interviews and Ranking
Brewer (2001)	---			●		●	In-depth interviews
Westhead et al., (2001)	Export			●		●	Mail survey, Chi-square tests
Anderson and Buvik (2002)	Export				●		Conceptual relationship approach
Papadopoulos and Thomas (2002)	Export		●	●		●	Shift-share analysis
Cavusgil et al., (2004)	Export	●				●	Country ranking and clustering
Sakarya et al., (2007)	---	●	●			●	Factor analysis, ANOVA
Brouthers et al., (2009)	Export & FDI		●			●	Neural Network approach
Gaston-Breton and Martín (2011)	---	●	●			●	Cluster analysis
He and Wei (2011)	Export	●	●	●		●	Logistic regression, SEM
Papadopoulos and Martín (2011)	---				●		Literature review
Marchi et al., (2014)	---	●	●			●	Fuzzy Export System, Ranking
Ozturk et al., (2015)	---		●			●	Regression analysis
Katsikeas et al., (2019)	---				●		Conceptual paper
Mersland et al., (2020)	---	●	●			●	T-test, Multiple Regression

2.2.1 Systematizing the IMS process

A stream of scholars in the field of IMS studies emphasizes the importance of adopting a systematic approach, which involves following the decision-making models to make informed decisions. This emphasis is crucial because many firms, especially SMEs, tend to adopt a reactive internationalization approach in the reality, often starting their internationalization effort by accepting unsolicited orders from foreign customers (Papadopoulous et al., 2002). Even among firms with a more proactive attitude, many heavily rely on their own experience and the intuition of decision makers when making internationalization decisions (Clark et al., 2018; Papadopoulos and Denis, 1988). Very few of them are aware of the benefits of applying a systematic IMS approach to assist in decision-making and risk reduction.

Many SMEs are constrained by limited resources, experience, and knowledge of new markets (Contractor et al., 2003), which increases the risk of failure in new international markets when decisions are based solely on subjective factors such as intuition and experience. Therefore, certain scholars in IMS research focus on this aspect and emphasize the importance of adopting a systematic approach in the IMS process to help firms narrow down potential countries in a less risky, cost-efficient, and time-efficient manner (e.g., Andersen and Buvik, 2002; Cavusgil et al., 2004).

2.2.2 Complementary of the IMS process

Systematic IMS models primarily use macro data, which efficiently aids companies in identifying markets with the greatest potential. However, relying solely on these quantitative models is insufficient for selecting the final market. The purpose of these systematic IMS models is to narrow down the list of international markets to a manageable number. Following this initial screening, a more in-depth analysis is essential to evaluate and ultimately select the final market for entry.

This complementary analysis to quantitative IMS modes typically takes two ways. first, after the initial screening, additional micro variables are introduced in the in-depth market analysis. These variables encompass strategic considerations (Gripsrud and Benito, 2005; Kumar et al., 1994), industry-specific information (Papadopoulos and Denis, 1988; Sakarya et al., 2007), and overall consumer segmentation (Gaston-Breton & Martín, 2011). Second, qualitative data is incorporated through methods such as interviews, surveys, and questionnaires. Thess qualitative inputs assist firms in making the final decision among the selected most potential countries (e.g., Brewer, 2001; Robertson and Wood, 2001; Westhead et al., 2001).

In general, these studies demonstrate the importance of integrating micro and qualitative data after the initial country screening using a systematic approach to inform the final decision regarding the target market. By combining macro data, micro data, and managers' evaluations, firms can make well-informed international market selection decisions.

2.2.3 Techniques to optimize the IMS models

In addition to emphasizing the importance of employing systematic quantitative approaches and complementing them with qualitative data, some studies focus on innovative techniques to optimize the current IMS models. For example, Saen (2011) proposed an advanced data envelopment analysis (DEA) model for market selection. This model allows for the simultaneous consideration of dual-role factors, inaccurate data, and weight restrictions. Brouthers et al., (2009) integrated Dunning's OLI model (ownership, location, and international advantages) with IMS. They applied a Multi-Layered Perceptron (MLP) network trained through a back-propagation algorithm to assess whether the OLI framework can predict superior subsidiary performance in MNEs. Marchi et al., (2013) applied the Fuzzy method, which employs a computing approach based on "degrees of truth" rather than the

usual “true or false”, to a small Italian stationery company and developed a flexible model accordingly.

These studies demonstrate the application of new techniques to enhance the IMS process. By incorporating advanced analytical models, neural networks, and fuzzy computing, researchers have aimed to improve the accuracy, flexibility, and predictive power of market selection methods.

2.2.4 Enrich IMS literature with resource-based theories

In addition to focusing on the IMS process itself, some scholars have sought to connect IMS research with other theories, such as resource-based theories. This connection is particularly relevant because resources and capabilities significantly influence a firm's strategy for evaluating potential markets and hinder internationalization development (Kumar et al., 1994; Westhead et al., 2001). Therefore, it is crucial to consistently consider the resources that firms possess during the IMS process. For example, Brouthers et al. (2009) demonstrated that Dunning's OLI framework could predict company performance in the IMS process. He and Wei (2011) emphasized the importance of market orientation (MO) as a critical internal firm-level resource. They aligned MO with IMS and proposed that firms with more MO resources and capabilities tend to choose markets that are more culturally distant.

2.2.5 Research gap in current IMS literature

Previous investigations have enriched IMS research from various perspectives and made significant contributions to the IMS literature. As mentioned above, they bring awareness to the importance of employing a more systematic approach for market selection, as well as different methodologies to comprehensively optimize the decision-making process, such as combining macro and micro data and applying innovative techniques. They also aim to develop theories that better explain the underlying market selection process. However, despite these contributions, much of the current IMS research focuses on the international market

selection process itself, and scholars are working to develop a market selection process that better fits real-world cases. While some scholars have pointed out the interrelationship between the choice of a foreign market and entry mode decision (Andersen and Buvik, 2002; Douglas, Craig, and Keegan, 1982), IMS is still considered an independent process, relatively separate from other parts of the internationalization process, such as entry mode decision.

To the best of our knowledge, none of the current IMS studies have considered the order of IMS and entry modes in the internationalization process, as well as how the differing attractiveness of various entry modes in different markets affects the final choice of the foreign market. It is widely accepted in IMS literature that the proper internationalization sequence consists of collecting data for potential markets, evaluating and comparing them, reducing the number of potential markets to a certain number, conducting a more in-depth analysis for the market with the most potential, making the final decision, and only then, at the very end, considering the mode of entry. However, this sequence has a problem as decision-makers may not know how to select appropriate criteria to screen potential markets during the international market selection phase if they are uncertain about the entry modes. This is because some markets may be more attractive for one entry mode, while others may be optimal for another entry mode.

The standard sequence poses no issues for companies that already have predetermined expectations regarding their subsequent entry modes before embarking on the international market selection process. For instance, the majority of IMS research focuses on SMEs, primarily using export as their chosen entry mode (e.g., Andersen and Buvik, 2002; Cavusgil et al., 2004; He and Wei, 2011; Kumal et al., 1994; Papadopoulos et al., 2002; Robertson and Wood, 2001; Westhead et al., 2002). A limited number of previous studies have addressed multinational corporations employing FDI as their entry mode (e.g., Papadopoulos and Martín, 2011). Moreover, aside from default export or FDI as subsequent entry modes, most

IMS studies do not delve into entry mode considerations when discussing the IMS process (e.g., Brouthers et al., 2009; Mersland et al., 2020; O'Farrell and Wood, 1994).

However, this established sequence poses challenges in cases where companies are uncertain about their entry mode into a new market, a situation that is becoming increasingly common. This shift is due to the advancements in digitalization and technology, which have enabled many SMEs to initiate their internationalization efforts without necessarily beginning with export. Digital tools empower firms by providing access to more information, reducing transaction costs, facilitating foreign partner and customer relationships, and diminishing their dependence on local infrastructure and geographic or psychic proximity (Katsikeas et al., 2019). Consequently, SMEs embarking on internationalization can take larger leaps rather than proceeding incrementally, bypassing the traditional export phase. Additionally, the forces of globalization have led many multinational corporations involved in global supply chains to adopt varying entry modes in different countries, not exclusively relying on FDI in every market. As a result, defaulting to a single entry mode for a company in the IMS process has become challenging and insufficient. Instead, it is essential to consider the influence of different entry modes in the IMS process.

The fundamental question of whether to prioritize international market selection or entry mode selection first may seem obvious but has surprisingly been overlooked in the IMS literature. Consequently, the primary objective of this paper is to address this "chicken or egg first" issue by resolving the sequence conundrum between IMS and entry modes. We aim to achieve this by developing a flexible and multidimensional methodology that empowers companies to conduct a more suitable market selection process.

2.3 Methodology

2.3.1 Data Selection and Filter Process

We have constructed a dataset as an illustrative example to demonstrate the application of the methodology we proposed for addressing the IMS and entry modes sequencing challenge. The initial database has 217 countries and 87 relevant variables in three categories: common variables, export-related variables, and FDI-related variables, which were identified in earlier published studies. Common variables have five sub-categories, namely "market size" (e.g., GDP, domestic market size index), "market growth rate" (e.g., GDP per capita growth), "market intensity" (e.g., GDP per capita, PPP), "commercial infrastructure" (e.g., internet penetration, road connectivity index), and "social-economic factors" (e.g., life expectancy, unemployment rate). Export-related variables are those connected to export rankings, such as "trade % of GDP," "net trade in goods," and "trade freedom index." Since there are few FDI-related variables in current IMS literature, the FDI-related variables in this paper are mainly extracted from the "ease of doing business index," "economic freedom index," and FDI investment risk indicators closely related to FDI. Data on these variables were collected from World Bank, World Economic Forum, The Heritage Foundation, EuroMoney, and Credendo, from year 2017 to 2021.

In order to avoid high correlations between variables that lead to some dimensions having a greater weight than expected, we checked the correlation among the 87 variables and kept only one of the variables for those with a correlation higher than 70%. Meanwhile, we excluded countries with more than 10% missing data from the initial 217 countries and regions. After the two steps, 86 countries and 30 variables were retained, i.e., 10 common variables, 10 export-related variables, and 10 FDI-related variables as indicated in Table 3. The data selection and filter process are listed in Figure 2.

Table 3. Variables and Weights for Country Ranking

Categories	Sub-categories	Variables	Weight
Common Variables	Market size	Apparent consumption (GDP+ imports of goods and services-exports of goods and services)	4%
		Domestic market size index	2%
	Market growth rate	GDP per capital growth (annual %)	2%
	Market intensity	GDP per capital, PPP	6%
	Commercial infrastructure	Internet user penetration	1%
		Mobile cellular subscriptions (per 100 persons)	1%
		Road connectivity index	1%
	Social economic factors	Life expectancy at birth (years)	1%
		Unemployment (% of total labor force)	1%
		Adult literacy rate	1%
Total Weights			**20%**
Export-related variables	Ease of doing business	Trading across border	10%
		Cost to import: documentary compliance	20%
	Growth rate	Trade % of Growth	4%
	Market receptivity	Trade % of GDP	8%
		Balance of trade (% of GDP)	5%
		Net trade in goods (BoP, current US$)	5%
	Commercial infrastructure	Container port traffic	3%
		Transport service (% of commercial service import)	5%
	Economic freedom	Trade Freedom	10%
	Export transactions risk	Commercial risk	10%
Total Weights			**80%**
FDI-related variables	Ease of doing business	Debt to GDP ratio	5%
		Obtaining credit score	10%
	Economic freedom	Business freedom index	10%
		Financial freedom	7%
		Labor Freedom	8%
		Fiscal health	10%
		Tax burden (of % GDP)	5%
		Resolving insolvency	5%
	FDI-investment risk	Political violence risk	10%
		Country risk	10%
Total Weights			**80%**

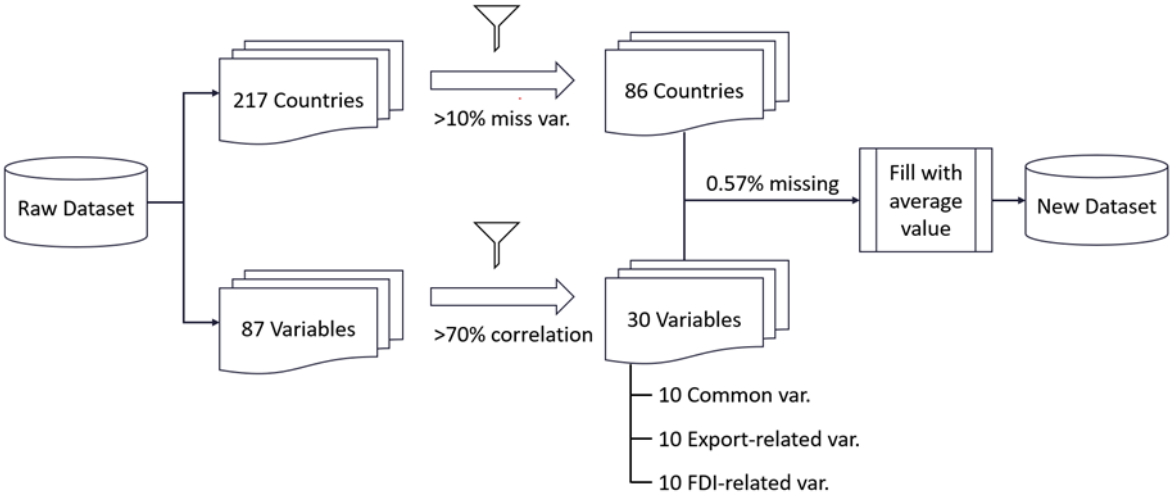


Figure 2. Data Selection and Filter Process

2.3.2 Method

We employ a country ranking approach to screen potential countries, which is a systematic method offering flexibility (Cavusgil et al., 2004). In our case, we use country-level variables as a general example. Nevertheless, it's essential to note that in specific instances, firms can customize the criteria to align with their unique requirements. This customization may involve incorporating variables related to the firm's home country, as well as industry-specific or product-specific variables. Firms can also assign weights to each variable based on its significance to their particular situation.

The country screening process involves the following steps: first, we select appropriate criteria to distinguish between different entry modes, namely, export and FDI. Next, we assign different weights to each variable based on their respective importance. Subsequently, we perform two distinct country rankings: one for export, which comprises 10 common variables with a 20% weight and 10 export-related variables with an 80% weight. The other ranking is for FDI, including the same 10 common variables used in the export ranking, accounting for 20% of the total weight, and 10 FDI-related variables carrying an 80% weight.

In the case of exporting, we invert the variables 'commercial risk' and 'cost to import: documentary compliance,' while for FDI, we invert 'debt to GDP ratio', 'political violence risk' and 'country risk.' Following the example provided by Cavusgil et al. (2004), we standardize all the variables on a scale of 1-100 using the following formula:

$$X'_{ij} = \left[\frac{X_{ij} - min_i}{R_i} \times (99)\right] + 1 \quad (1)$$

where:

X'_{ij} represents the standardized value for the jth country on dimension i;

X_{ij} represents the average score of country j on dimension i;

min_i is the minimum value for dimension i;

R_i is the range of dimension i.

Country rankings for export countries and FDI countries were conducted respectively based on the final score of all the countries. A 45° line, denoted by Y=X, is drawn to indicate a one-per-one exchange between the export and FDI grades. The distance to the line is then calculated. According to Vendrell-Herrero et al., (2017), the Euclidean distance provides greater flexibility compared to measuring solely along the horizontal or vertical axes. Figure 3 depicts the graphical representation of different countries, with FDI grade on the Y-axis and export grade as the X-axis, along with the 45° line[1].

New Zealand has the largest distance (28.54), Guatemala and Malaysia have the smallest distance (0.58), The average distance is 7.01. The list of countries' scores and ranks in export and FDI and countries' distances is shown in Table 4:

[1] we also drawn a Least-squares trendline to establish the correlation among data points within the Cartesian coordinate system. The trendline is clearly discernible in the figure, representing the optimal fit of data points that signify varying degrees of attractiveness for export and FDI in different countries. The results are aligned with 45° line.

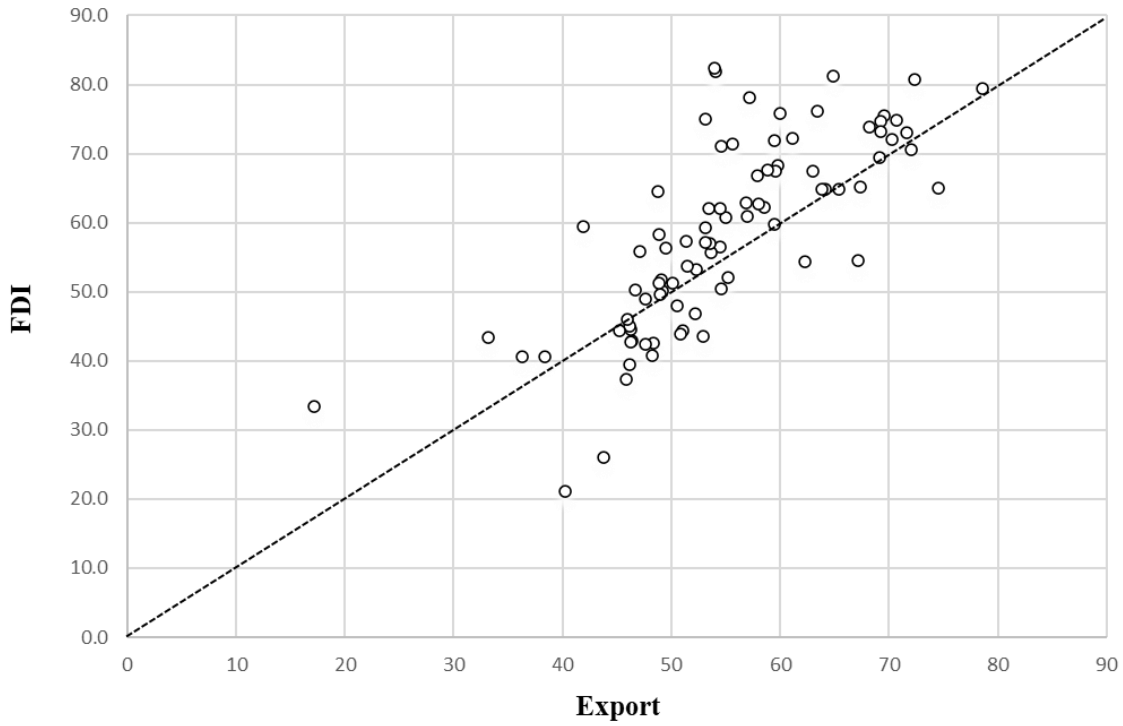


Figure 3. Country Ranking Distribution

Table 4. Country ranks for export and FDI and distance to 45° line

Country	Export	Rank	FDI	Rank	Distance
Singapore	78.6	1	79.5	5	0.87
Luxembourg	74.6	2	65.0	29	9.59
Denmark	72.3	3	80.8	4	8.44
Lithuania	72.0	4	70.6	21	1.45
Netherlands	71.6	5	73.1	15	1.50
Germany	70.7	6	74.8	11	4.09
Austria	70.3	7	72.1	17	1.86
Switzerland	69.5	8	75.5	9	6.01
Sweden	69.3	9	74.6	12	5.32
Norway	69.2	10	73.2	14	3.94
Estonia	69.1	11	69.4	22	0.30
Finland	68.2	12	73.9	13	5.68
Korea, Rep.	67.3	13	65.1	28	2.22
China	67.2	14	54.6	52	12.58
Malaysia	65.4	15	64.8	32	0.58
United States	64.9	16	81.2	3	16.34
Israel	64.2	17	64.9	30	0.71
Chile	63.8	18	64.9	31	1.02

Canada	63.4	19	76.1	7	12.74
Japan	63.0	20	67.4	26	4.42
Vietnam	62.3	21	54.3	53	7.98
Belgium	61.1	22	72.3	16	11.21
Czech Republic	60.0	23	75.8	8	15.81
Hungary	59.8	24	68.3	23	8.55
Slovenia	59.6	25	67.5	25	7.94
Poland	59.5	26	72.0	18	12.48
Greece	59.4	27	59.8	41	0.35
France	58.9	28	67.6	24	8.67
Italy	58.6	29	62.2	36	3.59
Portugal	58.0	30	62.8	35	4.75
Spain	57.9	31	66.9	27	9.00
United Kingdom	57.1	32	78.1	6	20.94
Romania	56.9	33	60.9	39	3.93
Bulgaria	56.9	34	62.9	34	5.96
Latvia	55.6	35	71.4	19	15.79
Croatia	55.2	36	52.0	56	3.15
Thailand	55.0	37	60.7	40	5.76
Turkey	54.6	38	50.4	60	4.20
Iceland	54.6	39	71.1	20	16.49
Serbia	54.5	40	56.5	48	2.04
Cyprus	54.5	41	62.0	38	7.55
Australia	54.1	42	82.0	2	27.89
New Zealand	53.9	43	82.5	1	28.54
Montenegro	53.6	44	55.6	51	2.00
Qatar	53.5	45	57.0	47	3.49
Kazakhstan	53.5	46	62.1	37	8.58
Mexico	53.2	47	59.2	43	6.06
Georgia	53.2	48	57.1	46	3.94
Ireland	53.1	49	75.0	10	21.89
Oman	52.9	50	43.5	73	9.37
Mongolia	52.3	51	53.2	55	0.88
Morocco	52.2	52	46.8	66	5.35
Albania	51.5	53	53.7	54	2.21
Peru	51.3	54	57.2	45	5.90
Bosnia and Herzegovina	51.0	55	44.5	70	6.59
Moldova	50.9	56	43.8	72	7.07
Dominican Republic	50.6	57	48.0	65	2.57
Costa Rica	50.2	58	51.3	59	1.09

Russia	49.5	59	56.3	49	6.76
El Salvador	49.2	60	50.1	62	0.97
Armenia	49.0	61	51.8	57	2.72
Guatemala	49.0	62	49.6	63	0.58
Saudi Arabia	48.9	63	51.3	58	2.41
Colombia	48.9	64	58.2	44	9.37
Mauritius	48.8	65	64.5	33	15.70
Paraguay	48.3	66	42.6	77	5.74
Nepal	48.2	67	40.7	79	7.51
Tunisia	47.7	68	42.5	78	5.17
Philippines	47.6	69	49.0	64	1.46
Indonesia	47.1	70	55.9	50	8.78
South Africa	46.7	71	50.3	61	3.67
Brazil	46.3	72	42.9	75	3.47
Argentina	46.2	73	42.7	76	3.50
Honduras	46.2	74	44.6	69	1.60
India	46.2	75	45.1	68	1.13
Ukraine	46.2	76	39.5	82	6.67
Cambodia	46.0	77	46.0	67	0.04
Ecuador	45.9	78	37.3	83	8.58
Jordan	45.2	79	44.3	71	0.92
Pakistan	43.8	80	26.1	85	17.69
Uruguay	41.9	81	59.4	42	17.45
Lebanon	40.3	82	21.2	86	19.11
Sri Lanka	38.3	83	40.6	80	2.24
Bangladesh	36.3	84	40.6	81	4.25
Ghana	33.2	85	43.5	74	10.29
Cameroon	17.2	86	33.5	84	16.25
75%	61.4		69.7		
90%	69.4		75.6		
Average	54.9		58.4		7.01

To further define countries with smaller or larger distances between export and FDI, we divided the overall scores of export and FDI for each country into four levels based on the following criteria: the 90% cut-off point (very high), the 75% quartile (high), the 50% quartile (moderate), and values below 50% (low). These divisions were made for each ranking separately:

Set (Export)= {very high (≥ 69.4); high [61.4-69.4); moderate [54.9-61.4); low (≤54.9)}

Set (FDI)= {very high (≥ 75.5); high [69.7-75.5); moderate [58.4-69.7); low (≤ 58.4)}

We employed a combined approach of two criteria, namely the distance to the 45° line and the difference in grade level between export and FDI rankings, to determine the distances. Countries with smaller distances are required to satisfy two conditions: their distance should be lower than the average value of 7.01, and their grade levels in both the export and FDI rankings should fall within the same range or have a difference of only one level. For instance, Singapore exhibits export and FDI scores of 78.6 and 79.5, respectively, both classified as "very high." Additionally, its distance measures 0.87, which is less than the average of 7.01. Thus, Singapore is considered to have a small distance to the 45° line. Similarly, the Netherlands achieves an export score of 71.6 (classified as "very high") and an FDI score of 73.1 (classified as "high"), differing by one level. Despite this distinction, its distance is 1.5, which is lower than average distance, still qualifying the Netherlands as a country with a small distance to the 45° line. Conversely, a larger distance indicates multiple differences in score levels between export and FDI rankings, accompanied by a distance exceeding the average. Using this criterion, we classified countries into two groups. The first group comprises countries with a smaller distance to the 45° line and identical score levels in both the export and FDI rankings, referred to as "analogous markets." The second group includes countries with a significant distance to the 45° line, situated in distinct score levels between the export and FDI rankings, termed as "distinct markets."

2.4 Results

Probing further into the “analogous markets” group, four distinct scenarios are observed, as depicted in Figure 4:

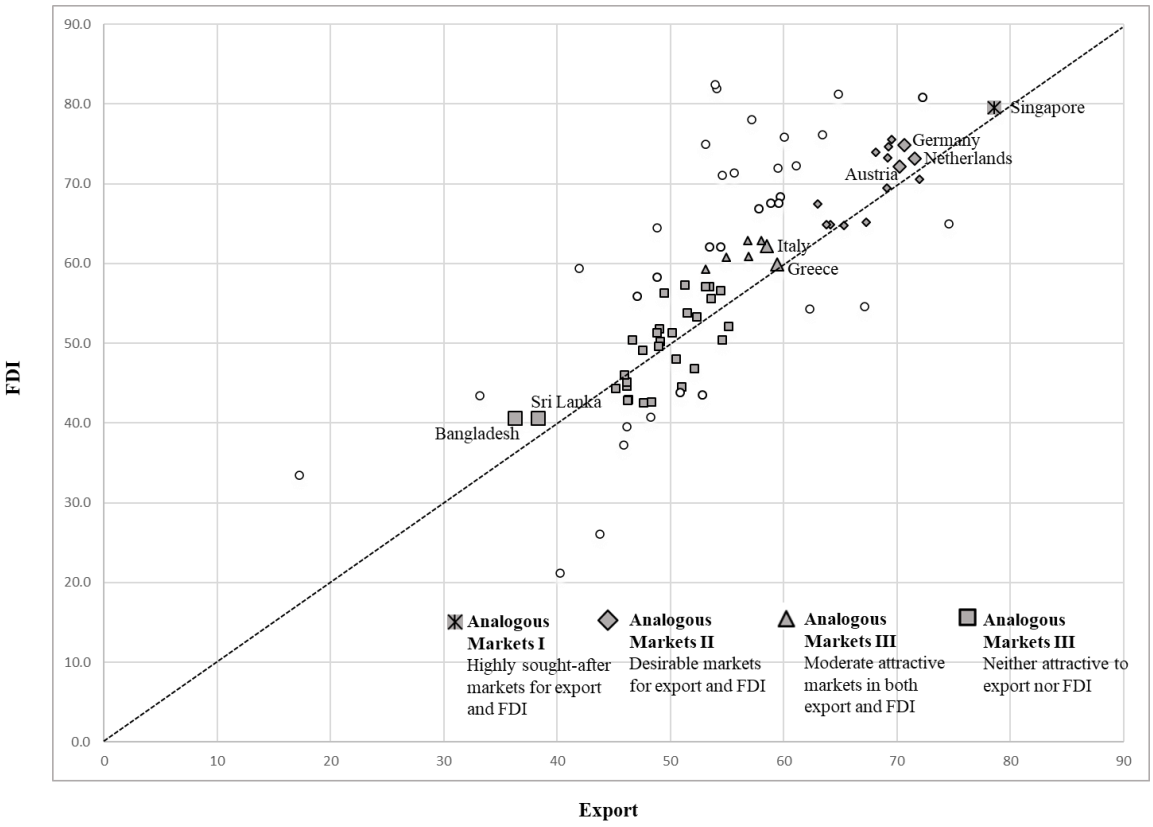


Figure 4. Analogous Markets distribution in 45° line

Analogous Markets I (AM1) – highly sought-after markets for export and FDI

This particular scenario comprises countries that excel in both export and FDI rankings, attaining remarkable high grades (export ≥ 69.4 and FDI ≥ 75.5). Consequently, these countries represent highly attractive markets for various entry modes. As illustrated in Figure 4, these countries exhibit a close proximity to the 45° line. For instance, Singapore (78.6, 79.5) is within this group.

Analogous Markets II (AM2) – desirable markets for export and FDI

This scenario includes countries that achieve high-level grades in both export and FDI, ranking from 61.4 to 69.4 for export and 69.7 to 75.5 for FDI. Furthermore, it encompasses countries that attain high-level grades in either export or FDI, along with moderate grades in the other, while maintaining a distance lower than the average value 7.01. For example,

Germany holds the 6th position in export ranking with a score of 70.7 and ranks 11th in the FDI ranking with a score of 74.8, and it exhibits a distance of 4.09 to the 45° line. Other countries such as the Netherlands (71.6, 73.1) with a distance of 1.5, and Austria (70.3, 72.1), with a distance of 1.86. Overall, all of these countries in this category are considered desirable markets for both export and FDI.

Analogous Markets III (AM3) – moderate attractiveness in export and FDI

Countries in this scenario achieve a moderate grade ranging from 54.9 to 61.4 in export and a grade ranging from 58.4 to 69.7 in FDI. It also includes countries that exhibit moderate grades in either export or FDI, together with a lower than average grade in the other, and a lower distance than 6.4. For example, Greece scored 59.4, placing 27th in the export ranking; and 59.8 in FDI, ranking 41st. Furthermore, the distance from Green to the 45° line is 0.35, indicating that the disparity in attractiveness between Greece as an export destination and as an FDI destination is minimal. Similarity, Italy demonstrates a distance of 3.59, with export and FDI scores of 58.6 and 62.2, respectively.

Analogous Markets IV(AM4) – neither attractive to export nor FDI

Some countries are positioned in the middle to the lower-left corner of the coordinate axis, in close proximity to the 45° line. This indicates that their scores in both the export and FDI rankings are suboptimal, falling within the range lower than the average score. For example, Sri Lanka holds the 83rd position with an export score of 38.3 and ranks 80th with an FDI score of 40.6. Consequently, it has a distance of 2.24 from the 45° line. Similarity, Bangladesh (36.3, 40.6) also belongs to this group.

In contrast to “analogous markets”, countries with a larger disparity between export and FDI scores are classified as “Distinct markets”. This category encompasses three scenarios, as illustrated in Figure 5:

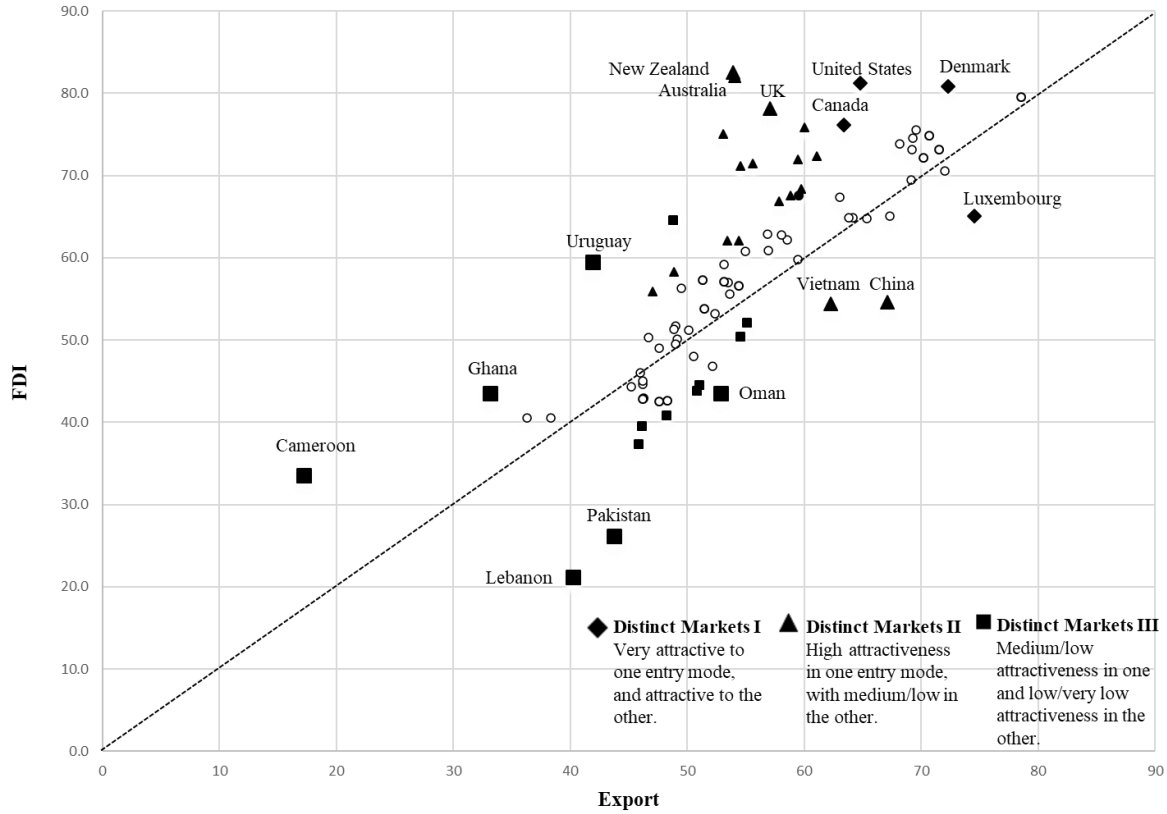


Figure 5. Distinct Markets distribution in 45° line

Distinct Markets I (DM1) – very attractive to one entry mode, and attractive to the other.

In this particular scenario, countries exhibit a noticeable deviation from the 45° line due to their export and FDI scores being at different levels. One score falls within the very high range (export ≥ 69.4, FDI ≥ 75.5), while the other falls within the high range (export ranging from 61.4 to 69.4, FDI ranging from 69.7 to 75.5). For example, Luxembourg achieved a remarkable export score of 74.6, ranking second among all the countries in the list, while scoring 65.0 in FDI, ranking 29th. The distance between Luxembourg's coordinates and the 45° line is 9.59. On the other side of Luxembourg, the United States is situated, with a higher FDI score of 81.2 (ranked third) and an export score of 64.9 (ranking 14th). The distance between the United States's coordinate point and the 45° line is 16.34. Canada (63.4, 76.1) and Denmark (72.3, 80.8) are also situated in the same side of United Sates. In general, the

four countries are attractive markets for different entry modes, while Luxembourg serve as a better destination for export, and the US, Canada, and Denmark are more favorable for FDI.

Distinct Market II (DM2) – high attractiveness in one entry mode, with medium/low in the other.

Countries of this type are noteworthy for being ideal markets for one entry mode but scoring only average or lower than average in the other. This scenario represents the primary focus of the paper as it revolves around the consideration of entry modes and the International Market Selection (IMS) process. It is crucial to take into account entry modes during the IMS process as certain markets may be attractive for export but unsuitable for FDI, and vice versa. For example, China is a desirable market for export (scored 67.2, ranking 14th) but less appealing for FDI (scored 54.6, ranking 52nd). Similarly, Vietnam has a higher score of 62.3 in export (ranked 21st), while its FDI score of 54.3 is lower than the average score (58.4). Conversely, some countries like New Zealand (scoring 82.5, ranking 1st in FDI), Australia (scoring 82, ranking 2nd in FDI), and the United Kingdom (scoring 78.1, ranking 6th in FDI) are attractive for FDI but only receive moderate scores in export, with New Zealand obtaining 53.9 points (ranking 43rd), Australia 54.1 points (ranking 42nd), and UK 57.1 points (ranking 32nd). Additionally, the coordinates of New Zealand, Australia, UK, China, and Vietnam are far from the 45° line, with distances of 28.54, 27.89, 20.94, 12.58 and 7.98, respectively.

Distinct Market III (DM3) – medium/low attractiveness in one and low/very low attractiveness in the other.

Countries of this type typically obtained moderate scores (export between 54.9 and 61.4, FDI between 58.4 and 69.7) in one entry modes and low score in the other (export ≤54.9, FDI ≤58.4), or low scores in one entry modes and very low scores (in the last 25% quartile, export ≤48.8.9, FDI ≤48.5). For instance, Uruguay serves as an example of a country with moderate attractiveness for FDI (scoring 59.4, ranking 42nd) but lacking attractiveness for FDI (scoring

41.9, ranking 81st), resulting in a distance of 17.45 from line. On the other hand, Oman exemplifies countries with average attractiveness for export (52.9, ranking 52nd) but is not suitable for FDI (scoring 43.5, ranking 73rd). While some countries exhibit lower scores in either export or FDI, and even lower scores in the other. Pakistan (scoring 43.8 in export, 26.1 in FDI, with a distance of 17.67), Lebanon (scoring 40.3 in export, 21.2 in FDI, with a distance of 19.11), Ghana (scoring 33.2 in export, 43.5 in FDI, with a distance of 10.29), and Cameroon (scoring 17.2 in export, 33.5 in FDI, with a distance of 16.25).

2.5 Conclusion and Discussion

The international market selection model proposed in this article plays a pivotal role in guiding companies throughout their entire internationalization process, equipping them to make informed decisions regarding their subsequent international market entries. International market selection (IMS) involves the establishment of criteria for assessing potential countries, classifying them based on agreed-upon criteria, and determining the most suitable country for the subsequent steps (Andersen & Strandskov, 1998). Scholars in the field of IMS research have dedicated themselves to systematizing and refining the IMS model over the years. Their efforts have focused on enhancing the theoretical foundation and methodology of IMS, with the aim of effectively guiding companies in their market screening endeavors. However, much research in this area tends to concentrate on IMS while lacking connectivity with other crucial aspects of the internationalization process, such as entry modes. This has led to many IMS models overlooking the sequencing issue, whether market selection precedes entry mode decision or vice versa, thereby neglecting the impact of different entry modes on the market selection process. This deficiency can result in companies struggling to select appropriate criteria during the screening process, potentially leading to inappropriate market selection decisions.

To address this issue, it becomes imperative to develop a contingency-based and flexible IMS model that preserves the guiding principles of the traditional model while transcending its limitations. In pursuit of this goal, we have integrated the entry mode decision with the market screening process. We conducted country rankings for both export and Foreign Direct Investment (FDI) based on selected relevant variables, assigning distinct weights to these variables to reflect their respective importance. To provide a visual representation of the variations in market attractiveness based on entry modes, we have employed graphical illustrations. Specifically, we have utilized the export ranking scores of countries on the horizontal axis and the FDI ranking scores on the vertical axis. By plotting all countries on this coordinate map, we can analyze the disparities in the attractiveness of different entry modes. The proximity of a country's coordinate point to the 45° line offers insights into the varying appeal of entry modes within that market. This approach challenges the conventional notion that companies must adhere to a step-by-step process in internationalization. Instead, it introduces flexibility into the IMS model, rendering it applicable to a broader spectrum of companies across various industries. Furthermore, our IMS model contributes to more informed market selection decisions for companies, thereby enhancing their overall decision-making processes.

When firms select countries classified as 'Analogous Markets' as their target destinations, the impact of different entry modes on their choices of the final market is not of significant concern. This is because the attractiveness of these markets does not vary significantly based on entry modes. However, caution is warranted when firms consider venturing into countries with lower scores in both export and FDI rankings. While such choices may be driven by cost-saving and efficiency considerations, firms should carefully assess whether the potential risks outweigh the benefits associated with entering these countries. It is crucial to exercise prudence and make informed decisions in such cases. For countries categorized as 'Distinct

Markets,' companies should allocate more attention to evaluating their suitable entry modes. A thorough market screening process should be conducted, followed by a reasonable and well-informed final decision-making process. These findings highlight two important theoretical contributions to the fields of International Market Selection and corporate internationalization literature.

First, this paper addresses a crucial issue in IMS research by bridging the gap between two essential but traditionally separate aspects of internationalization: international market selection and entry modes. It aims to resolve the 'chicken or egg first' conundrum. While it is commonly understood that the entry mode decision follows the selection of the final destination (Cavusgil et al., 2004), previous studies have predominantly focused on defaulting to export as the entry mode for small and medium-sized companies (SMEs), with limited research on issues related to foreign direct investment (FDI) (Papadopoulos et al., 2002). Moreover, some studies have isolated the market selection aspect from the entry mode decision in the IMS process. Neglecting entry modes in IMS can hinder companies from conducting appropriate country scanning and selection. Therefore, our paper aims to identify and address this issue by developing a more flexible IMS model, thereby contributing to the IMS literature.

Second, recent trends in both internationalization and IMS literature have embraced the value of flexibility (Surdu et al., 2021). Our IMS model aligns with this shift towards a more open and adaptable approach, contributing to the evolving landscape of IB research. While we acknowledge that the traditional IMS model provides valuable guidance to companies and serves as an effective risk avoidance mechanism, it's essential to recognize its limitations, including its static nature and inability to keep pace with the ever-changing international business environment. This lack of necessary flexibility is a concern. In light of this trade-off, we advocate for a contingent perspective. We view the IMS model proposed in this paper as a

balanced approach that combines systematicity and flexibility. This model offers adaptability and responsiveness to a broader spectrum of companies. Moreover, by incorporating in-depth market analysis throughout the IMS process and drawing on the behavioral theory of the firm as the foundation for the internationalization process, this model exhibits a higher degree of adaptability.

This paper also holds significant managerial implications. In the current business landscape, an increasing number of firms find themselves uncertain or open to exploring various entry modes into international markets. This shifting landscape presents a challenge where they must decide whether to first select the market for entry and then determine the entry mode afterward. For these firms, the flexible IMS model proposed in this study carries substantial practical importance. This model equips firm decision-makers with the tools to conduct an efficient and cost-effective country screening process, reducing the inherent risks. This is especially valuable for Small and Medium-sized Enterprises (SMEs) that are either planning to initiate their internationalization journey or those that have already commenced but possess limited international experience. The flexibility inherent in our model accommodates the evolving needs and circumstances of firms navigating the complexities of international markets. It provides decision-makers with a framework that allows for a dynamic assessment of potential markets and entry modes, optimizing their internationalization strategies and enhancing their ability to adapt to changing market conditions. This adaptability is particularly crucial in today's global business environment, where rapid changes and uncertainties are the norm.

This study, while offering valuable insights, is not without its limitations. We have chosen to concentrate on two specific entry modes, namely export and Foreign Direct Investment (FDI), which exhibit substantial differences in terms of control and commitment levels. Our primary objective was to demonstrate the concept of a more flexible IMS model that

incorporates various entry modes into the foreign market selection process. However, it is imperative to recognize that the international business landscape offers a multitude of other entry modes, each with its distinct characteristics and implications. These alternative entry modes, such as licensing, franchising, strategic alliances, and joint ventures, bring their unique sets of considerations and challenges into play. As such, they require specific criteria for evaluation within an IMS framework. Future research endeavors should focus on identifying the critical criteria relevant to these alternative entry modes and subsequently developing a comprehensive, multi-dimensional IMS model that accommodates them. By doing so, researchers and practitioners can gain a more holistic understanding of international market selection, enabling firms to make informed decisions across a broader spectrum of entry modes. This extension of the research would enhance the practical applicability of IMS models in addressing the evolving needs and complexities faced by international businesses in an ever-changing global marketplace.

Study II: Learning 'From' vs. Learning 'About' Partners in Pre-Acquisition Strategic Alliances: The role of familiarity

3.1 Introduction

Although the popularity of mergers and acquisitions (M&As) continues to grow among academics and practitioners, their success rate remains dismal (King et al., 2004; Tuch and O'Sullivan, 2007). Despite the vast amount of research that has been undertaken to investigate the critical success factors associated with the pre- and post-acquisition processes (e.g., Gomes et al., 2013), very little attention has been devoted to understanding the effect of strategic alliances as an important pre-acquisition success factor. Our paper addresses this issue.

It has recently been argued that one way to surpass established boundaries is by bridging the M&A literature with that of the strategic alliance (Gomes et al., 2021). Strategic alliances and M&As are both important strategic methods of development but are typically treated as separate bodies of knowledge (Yang et al., 2010). However, a small yet growing research stream has begun to investigate the impact of a previous strategic alliance with the acquired firm on post-acquisition performance. Evidence emerging from a few studies suggests a positive relationship between a previous alliance with the target and post-acquisition performance (see Meschi et al., 2018 for a review).

The performance-enhancing effect of a previous alliance with the target was first identified by Porrini (2004). Several more recent studies have continued to expand on this seminal paper and have further enriched our understanding of the impact of a previous alliance with an acquisition target. For instance, Al-Laham et al. (2010) focused on the relationship between a prior R&D partnership and post-innovation outcomes, finding a positive effect on the post-acquisition patent rate. McCarthy and Aalbers (2022) demonstrated that a previous alliance with an acquisition target positively impacts inventive quantity and

exploitative tendencies. Meschi et al. (2018) emphasized the importance of the duration of the pre-acquisition alliance. Lastly, Zaheer et al.'s (2010) study sheds light on important contextual specificities, such as international acquisitions and type of alliances.

This emerging research stream predominantly adopts organizational learning as its primary theoretical underpinning.[2] The central argument put forth in these studies is that an alliance fosters organizational learning through the exchange of technological knowledge (Inkpen, 1999) and skills (Tsang, 1999) between partners even before the acquisition takes place. By assimilating the information and resources, companies cultivate partner-specific absorptive capacity (Meschi et al., 2018), and develop new capabilities and knowledge (Anand and Khanna, 2000; Kale and Singh, 2009). Furthermore, the spillover and integration of knowledge among partners (Sousa et al., 2021) contribute to an enhanced collaboration process, facilitating the attainment of synergies and the subsequent acquisition integration process.

The studies mentioned above have greatly contributed to validating the positive relationship between pre-acquisition alliances and post-acquisition performance. However, it is widely acknowledged that a thorough understanding of the context is essential for analyzing inter- and intra-organizational exchange-based transactions, agreements, and commitments (Conway, 1996). Despite the extensive exploration of target evaluation in the literature (Cuypers et al., 2017; Gomes et al., 2020), notably through formal due diligence processes (Angwin, 2001), no prior study has endeavored to examine the effect of contextual factors such as cultural and industry-level familiarity on the relationship between pre-acquisition alliances and post-acquisition performance. This study aims to shed light into this overlooked area.

[2] In addition to organizational learning, a few studies complement this perspective with arguments from the economics of information (e.g., Al-Laham et al., 2010, Ragozzino and Moschieri, 2014). For instance, pre-acquisition alliance enables sellers to signal their value to potential buyers, thereby reducing information asymmetry and mitigating adverse selection for acquirers (e.g., He et al., 2020; Porrini, 2004).

Drawing upon the psychological contract theory, we contend that a pre-acquisition alliance with a partner from a familiar context promotes the development of informal psychological contracts, which enhance the ability to learn not only *from* a partner as the literature indicates, but especially *about* the partner, before a formal pre-acquisition process is initiated. Psychological contracts refer to individual beliefs concerning obligations (Rousseau, 1990) that go beyond the written contract and are rooted in social cognition and social exchange motives (Thomas et al., 2003).

In light of the psychological contracts theory, we propose that a pre-acquisition alliance serves as a means for merging firms to overcome the limitations of formal evaluation and due diligence processes. By encouraging socialization and interpersonal relationships, firms can reach a stage akin to "courtship" – a deeper level of emotional inter-organizational involvement. During this stage, the value generated through relational learning enhances both pre-and post-acquisition performance. Thus, we argue that the development of psychological contracts between individuals in two companies is a prerequisite for the occurrence of relational learning within the alliance that precedes the formal pre-acquisition process. Psychological contracts formed during this period help employees from both organizations feel more connected to one another, foster mutual trust, and promote a willingness to assume mutual obligations. Consequently, the lens of psychological contracts offers an explanation for why pre-acquisition alliances facilitate the establishment of common ground and enable *learning about* the partner, even prior to the formal pre-acquisition process.

The formation of a psychological contract enables both parties to understand their mutual obligations. Consistent with Bal et al. (2013), we argue that this is closely linked to familiar environments. In a familiar context, mutual obligations are implicit yet comprehensible, facilitating reciprocity and trust-building, thereby enhancing the ability to learn about the partner. We operationalize the level of familiarity through the combination of market

familiarity (industrial relatedness) and cultural familiarity (cultural distance). Previous studies have shown that while unfamiliar contexts offer greater potential for organizational learning (Muehlfeld et al., 2012), familiar contexts provide better conditions for relational learning (Cheung et al., 2011), thereby adding more value to the alliance and subsequent acquisition stages. Investigating the relationship between previous alliance and M&A from a relational learning perspective is a significant contribution of our study. It enhances the theoretical dialogue between the M&As, strategic alliances, and learning literature, thereby addressing the recent call for more cross-disciplinary research in M&As (Angwin et al., 2020). Moreover, we extend the often cited but rarely tested distinction between learning *from* the partner and learning *about* the partner (Hoang and Rothaermel, 2005). Our thesis posits that learning from the partner is associated with organizational learning, leading to innovation outcomes and improved joint project performance, while learning *about* the partner is associated with relational learning, facilitating a more efficient acquisition integration process (Rouzies et al., 2018).

We have developed a unique longitudinal dataset by merging multiple sources to examine the effect of previous alliance on post-acquisition performance across various familiarity contexts. First, data on alliances and acquisitions from 2005-2018 were collected from Securities Data Corporation (SDC) Platinum, providing information on over 30,000 yearly acquisitions and 2,000 yearly alliances. Second, financial data needed in order to construct the performance measure – specifically the change in return on assets (ROA) – were obtained from the EIKON and ORBIS databases for the period 2004-2020. Previous studies that explore the relationship between previous alliances and post-acquisition performance primarily employed regression models (e.g., Porrini, 2004). However, this empirical strategy possesses a notable limitation as it fails to control for endogenous effects and confounding factors. To address these concerns, we use propensity score and strata-based matching

techniques to correct for endogeneity. Consequently, another contribution of our study is that, to the best of our knowledge, it is the first empirical research to examine the endogeneity-corrected effect of pre-acquisition alliances on post-acquisition performance.

In the following section we develop our conceptual framing and propose hypotheses regarding the moderating effect of country and industry familiarity. We subsequently present the dataset, operationalization of variables, and statistical methods employed. The presentation of the analyses and results of the two hypotheses is preceded by an examination of the baseline effect and followed by robustness tests. Finally, we conclude the work by discussing the key academic and managerial implications, limitations, and avenues for future research.

3.2 Background literature

3.2.1 Temporality in M&As: the role of strategic alliances

Despite the extensive research conducted on the critical factors associated with the pre-agreement and post-agreement phases of acquisitions, most M&As ultimately fail (Bauer and Matzler, 2014; Dyer et al., 2004; Tuch and O'Sullivan, 2007). The high failure rates can be attributed to the complex, multilevel, multifaceted, and multitemporal nature of M&As (Haleblian et al., 2009; King et al., 2004; Shi et al., 2012; Stahl and Voight, 2008). A limitation of the literature is that most studies tend to focus on isolated aspects without offering a comprehensive and integrated perspective that considers both pre- and post-agreement factors (Gomes et al., 2013). Thus, it is imperative to adopt a comprehensive temporal approach that spans the various phases of the acquisition process. Notably, learning during the post-acquisition integration period is very important, as reported in several studies. (Graebner et al., 2017, Mirc and Parker, 2020; Zollo and Singh 2004).

However, we contend that the learning process should commence prior to the actual acquisition and even before the acquiring firm commits to acquiring a specific target (Gomes et al., 2013; Love and Ganotakis, 2013; Porrini, 2004; Sousa et al., 2021). In this regard, a temporary strategic alliance with a potential target can offer a distinctive learning opportunity that may not be available once the acquisition is completed. Specifically, establishing a pre-acquisition alliance can serve as an experientially driven approach to gaining insight into and evaluating the target before making a final decision regarding the deal. As evidenced by a limited but notable research stream in the M&A literature, the ability to engage in such a relationship prior to the acquisition decision and the initiation of a formal pre-acquisition process can facilitate the management of the pre-agreement stage and subsequently facilitate smoother post-agreement integration and performance (Al-Laham et al., 2010; Porrini, 2004; Zaheer et al., 2010).

A strategic alliance is typically defined as "a voluntary arrangement between firms involving exchange, sharing, or co-development of products, technology, or services" (Gulati, 1998, p.293). Strategic alliances and M&As have traditionally been viewed as distinct approaches to achieve growth, characterized by varying levels of corporate control and resource commitment (Gomes et al., 2011). Consequently, scholars often consider them as alternative options (Yang et al., 2010). Despite the existence of commonalities between strategic alliances and M&As, prior research has only marginally explored the relationships between the two (Gomes et al., 2021).

The very few studies that have examined those relationships have focused on a specific industry such as manufacturing (Porrini, 2004), biotech (Al-Laham et al., 2010), or high-tech (Zaheer et al., 2010) or have examined domestic acquisition within a single country such as in the U.S. (Al-Laham et al., 2010; He et al., 2020; Porrini, 2004). Consequently, they report findings about acquisitions preceded by alliances between firms from familiar contexts, i.e.,

high market familiarity (same country and same industry), and high cultural familiarity (domestic acquisitions). Hence, there is a need for a more nuanced investigation of the effect between the existence of a pre-acquisition alliance and post-acquisition performance in familiar and non-familiar contexts. We argue that such an investigation is necessary because the ability and necessity of inter-firm learning may vary depending on the level of familiarity between collaborating firms.

3.2.2 Learning in strategic alliances

We identify two types of learning in strategic alliances. First, through organizational learning, partners can acquire expertise, practices, and specialized knowledge from each other (Inkpen, 1998; Meier, 2011). By sharing resources and gaining exposure to their partners' internal processes, firms can tap into their partners' skills and knowledge, thereby facilitating their own skill development (Tsang, 1999). This approach, which we label "learning from the partner", aligns well with open innovation approaches, in which partners collaborate to share complementary knowledge and develop new products or processes (Shaikh and Levina, 2019). In the context of pre-acquisition alliances these joint innovation outcomes have been identified as a key element in explaining the higher post-acquisition performance when a prior strategic alliance is in place (e.g., Porrini, 2004; Meschi et al., 2018).

Second, through relational learning it is possible to gain insights into the partner's approaches, strategies, culture, leadership styles, and overall organizational dynamics (Mirc, 2012). It emphasizes the importance of understanding the relational aspects between the partnering entities, including their interdependencies, communication patterns, decision-making processes, and mutual expectations (Larson, 1992). Relational learning goes beyond knowledge acquisition. It involves a deeper exploration of the partner's context and the establishment of a meaningful relationship. It often requires building trust, effective

communication channels, and shared understanding to nurture collaboration and leverage the synergies between the partnering entities (Gulati and Kletter, 2005). This approach, which we label “learning about the partner”, enables the development of a more comprehensive understanding of the partner’s strengths, weaknesses, and unique capabilities. This understanding facilitates better collaboration, coordination, and alignment of goals, leading to enhanced performance and mutually beneficial outcomes for the partnering entities (Smirnova et al., 2018). In the context of pre-acquisition alliances, we argue that this approach may be especially important as it ensures the creation of a psychological contract and common ground. As a result, it may, at least in part, explain the higher post-acquisition performance when a prior strategic alliance is in place.

Psychological contract and common ground in pre-acquisition strategic alliances

Psychological contract refers to individual beliefs held by individuals within a relationship regarding the mutual and reciprocal obligations, such as the expectation of hard work, trust, loyalty, and willingness to make sacrifices in exchange for certain inducements (Rousseau, 1990, 1995). These beliefs exist at the relational level and do not necessarily correspond to formal stakeholder roles (Guest, 1998).

In contrast to the more static, tangible, and formal due diligence evaluation process employed in assessing an acquisition target, pre-acquisition alliances provide an opportunity to establish a more dynamic, intangible, and open-ended relational contract (Rousseau, 1990) among individuals from both firms. As the relationship progresses beyond a contractual-based entry level, it evolves into a deeper emotional and individual level, contributing to a better understanding of mutual expectations and obligations, as well as the development of trust.

Unlike the substantive expertise gained through formal pre-acquisition due diligence evaluations (Angwin, 2001, Cuypers et al. 2017), the expertise achieved from the pre-

acquisition alliance relationship is situated and contextual (Barley 1996). It is generated within the interactions and relationships among individuals and objects (Pakarinen et al., 2023) and developed through practical experiences within the specific context (Barley, 1996). Within this context, individuals establish relational networks, gain personal knowledge of key individuals, and reduce information asymmetry between partner firms. The relational learning process facilitated by the establishment of psychological contracts influences the structure of the embedded social network, contributing to the creation of synergies (Mirc, 2012). Therefore, we argue that it provides a fertile environment for developing common ground between two firms (Lane and Lubatkin, 1998).

Common ground refers to "the sum of individuals' mutual, common or joint knowledge, beliefs, and suppositions" (Clark, 1996, p93). It represents the information that is known and acknowledged by all parties involved. (Puranam et al., 2009). Common ground can be established rapidly after an acquisition as an alternative to formal procedures, such as structural integration in the post-M&A process (Angwin and Meadows, 2015; Mirc et al., 2022; Puranam et al., 2009); it can also be quickly developed during the pre-acquisition alliance period through relational learning. Putnam (1995) suggests that common ground generates social capital, which encompasses features like networks, norms, and social trust that facilitate coordination and cooperation for mutual benefits. Therefore, common ground strengthens the psychological contract between individuals from both organizations. As psychological contract and mutual trust interact, they form a positive feedback loop in the alliance relationship, building mutual trust and reducing uncertainty and opportunism (Gulati, 1995). The common ground established through relationship learning may become embedded in interfirm resources and routines (Dyer and Singh, 1998), and can be transferable to the subsequent acquisition.

In sum, the formation of psychological contracts and the establishment of common ground during the strategic alliance phase offer greater benefits compared to knowledge developed solely during post-M&A integration stage. This is important as it allows parties involved to accumulate knowledge from the relationship over time, recognizing that learning is a gradual process (Sousa et al., 2021). As a result, the synergies generated during the pre-acquisition alliance period contribute to the effectiveness of post-acquisition implementation and overall performance.

3.3 Hypotheses Development

3.3.1 The role of familiarity in pre-acquisition strategic alliances

As mentioned above, when discussing learning in strategic alliances, the literature focuses primarily on knowledge transfer and learning from the partner (Inpken, 1998; Tsang, 1999; Meier, 2011). The prevailing perspective derived from these studies suggests that strategic alliances can offer specific benefits to partner firms operating in unfamiliar market and cultural contexts (Muehlfeld et al., 2012). While some scholars argue that firms from unrelated industries can access information and knowledge that may not be available within their own industry (Gomes et al., 2011), other scholars assert that international alliances involving partners from different countries are typically associated with the exchange of more specialized knowledge and therefore greater potential to learn (Morosini et al., 1998; Stahl and Voigt, 2008; Vendrell-Herrero et al., 2017; Vermeulen and Barkema, 2001). Taken together, these perspectives suggest that in unfamiliar contexts, there are unique opportunities to learn from the partner (Zaheer et al., 2010).

While we acknowledge the benefits of learning from partners in various industries and countries, our attention is directed toward pre-acquisition alliances as mechanisms that facilitate *learning about the partner* (before an acquisition) – or accessing partner-specific

knowledge (Hoang and Rothaermel, 2005). Unlike the literature focusing on learning from the partner, especially those from different contexts (e.g., industrial and cultural), we argue that the ability to *learn about the partner* during a pre-acquisition alliance is partly determined by the degree of familiarity between the firms.

According to Testoni et al. (2022), the primary driver of value in pre-acquisition alliance relationships resides not only in the potential to learn, but also in the conditions that enable learning, such as face-to-face interaction. In this regard, we contend that relational learning is facilitated by the establishment of psychological contracts, which are more likely to form when partner firms possess a mutual familiarity with each other's contexts. Context familiarity promotes sense-making and allows firms to develop a better understanding of their shared expectations and responsibilities through the implicit formation of psychological contracts. In strategic alliances involving partners from unfamiliar contexts, achieving psychological contracts becomes much more challenging since much of the interaction "gets lost in translation" due to the limited common ground and shared understandings. As Guest (1998, p.652) aptly puts it, it resembles "two strangers passing blindfolded and in the dark, disappointed at their failure to meet".

Familiarity encompasses various dimensions within a country as well as between different countries. Consequently, we formulate distinct moderation hypotheses for familiarity at domestic-level and familiarity at the international level.

3.3.2 The role of industrial familiarity in domestic settings

In the context of domestic settings, it is important to consider familiarity at the industry level. Firms operating in different industrial contexts are expected to be less familiar compared to firms operating in a related industrial environment (Varadarajan and Cunningham, 1995; Christensen and Gordon, 1999). This distinction allows us to define

market familiarity, which pertains to partners operating within highly related industrial boundaries within the same domestic market.

While it is commonly acknowledged that industrial differences can enhance the learning process from partners in regular strategic alliances (Ho and Wang, 2015) and lead to increased innovation outcomes (Enkel and Gassmann, 2010), we argue that the same principle may not apply to pre-acquisition alliances. In these alliances, learning about the partner requires a mutual understanding that exceeds the potential for innovation. We propose that a higher level of market familiarity plays a key role in facilitating the comprehension of mutual expectations and obligations, and the establishment of common ground between pre-acquisition partner firms. The acquisition of Cellzome by GlaxoSmithKline (GSK) serves as an example. As part of their pre-acquisition strategy, between 2008 and 2010 GSK strategically implemented a series of research and development (R&D), marketing, and exclusive licensing alliances with Cellzome, a drug company operating in the same industry. These alliances not only allowed GSK to gain valuable insights into Cellzome's technology but also, in line with their stakeholder strategy (Saïd et al., 2019), enabled them to establish strong relationships with key workers and scientists. This engendered trust and collaboration, which proved to be essential during the subsequent integration phase.

The use of pre-acquisition alliances by GSK highlights that the barrier to relational learning between partner firms in the same industry is lower, primarily due to a better mutual understanding of each other’s expectations and behaviors. Market familiarity can accelerate the formation of psychological contracts and common ground between partners during the pre-acquisition alliance, and develop mutual trust and minimize uncertainty, opportunistic behavior, knowledge leakage, and free riding of partners (Gulati, 1995; Lavie et al., 2022; Robinson, 2008). Consequently, it can facilitate knowledge and resource exchange, maximize

synergy, and enhance efficiency gains during the post-acquisition phase (Capron and Mitchell, 2004: Harrison et al., 1991). Based on these considerations, we hypothesize that:

H1: *The greater the market familiarity, the greater the strategic alliance enhancing effect on post-acquisition performance.*

3.3.3 The role of cultural familiarity in international settings

We aim to delve into the impact of cultural familiarity in international settings, a factor that can strongly influence the outcomes of cross-border alliances. Cultural distance, which reflects the extent to which shared norms and values differ between countries (Hofstede, 2001), serves as our measure for examining the influence of pre-acquisition cross-border alliances. Previous research grounded in the resource and knowledge-based views of the firm has shed light on the positive effect of national cultural differences in international strategic alliances (Sirmon and Lane, 2004), highlighting the importance of *learning from* the partner. Likewise, other scholars have demonstrated the advantage of leveraging inter-organizational collaborative arrangements to facilitate entry into culturally distant countries (Kogut and Singh, 1988).

However, despite recognizing the potential for M&As and alliances to overcome national cultural differences and create opportunities for *learning from* the partner, we argue that disparities in institutions, norms, culture, language, and management styles may hinder firms' ability to effectively use pre-acquisition alliances as a means to learn about the partner and capitalize on the potential benefits.

For example, in the context of pre-acquisition alliances, gaining a deep understanding of the new routines and practices embedded in the target's national cultural context is essential (Morosini et al. 1998). Cultural stereotypes can exacerbate conflicts, fueling nationalism or ethnocentrism, thereby impeding effective collaboration (Vaara, 2003). Moreover, the clash

of cultures can erect complicated barriers to post-acquisition integration, hampering seamless communication throughout the process (Angwin et al., 2014; Angwin and Vaara, 2005).

Adopting a social identity perspective, Turner (1982) highlights that in-group *versus* out-group biases arising from different cultures can amplify stress and uncertainty, making it challenging to achieve mutual understanding. Reconciling "our" uniqueness and "their" otherness becomes a complex undertaking (Kleppestö, 2005). Consequently, when pre-acquisition partners are less familiar with each other's culture, it becomes more difficult for them to establish psychological contracts and create common ground that would enable them to learn more about each other even before the pre-acquisition process takes place. Based on these considerations we propose the following hypothesis:

H2: *The greater the cultural familiarity, the greater the strategic alliance enhancing effect on post-acquisition performance.*

3.4 Data and Variables

3.4.1 Data collection

The original data of M&As were obtained from Securities Data Corporation (SDC) Platinum, encompassing both disclosed and undisclosed value deals on a global scale. The database provides approximately 30,000 M&As and 2,000 strategic alliances annually. In our analysis, we integrated strategic alliances and M&As across all industries and countries for the period 2005-2018. The 14-year duration surpasses the time frame employed in previous studies that employed the same methodological approach for data collection (e.g., 10 years in Porrini (2004); 9 years in Zaheer (2010)). We included licensing, manufacturing, marketing, R&D, and technology transfer types of alliances.

To integrate the M&A and Strategic alliance databases, we employed a three-step approach. First, we used a C-sharp language program to identify M&A instances in which the

acquirer had previously engaged in an alliance with the target. All M&As and strategic alliance cases were organized chronologically from 2005 to 2018. For each M&A case we checked if the target name and acquirer name appeared in the participants list of strategic alliance (SA). If a match was found the case was classified as an M&A with a prior strategic alliance, and vice versa, as illustrated in Figure 6. Following the initial screening, we identified a total of 417 M&A cases involving full or majority acquisitions that had a previous alliance with the target.

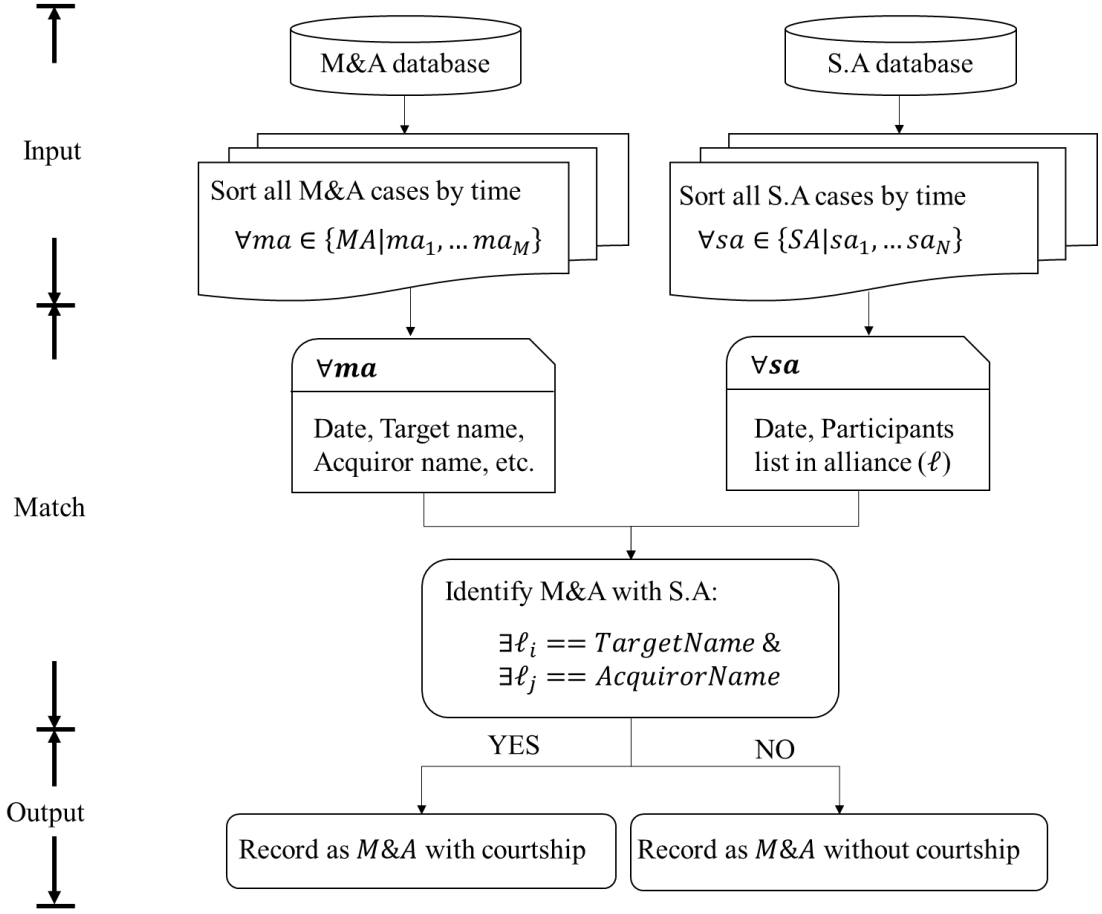


Figure 6. Flow chart of detection algorithm of M&As with/without alliances

Second, we examined the balance sheet and income statement using the EIKON and ORBIS databases to retrieve financial information. EIKON, provided by Thomson Reuters,

includes financial data of publicly listed companies worldwide, spanning from their initial listing until the present. In comparison, ORBIS, developed by Bureau van Dijk, offers financial data for both public and private companies over the past decade. The financial information used in this study follows a longitudinal approach, encompassing data from one year before and two years after the date of the acquisition. By combining these two databases we were able to obtain the necessary financial information, including total assets, number of employees, and net income for both private and public companies covering the 2004-2020 period. From the initial pool of 417 cases, we excluded 222 cases due to missing financial data and repetitive entries, resulting in a treated sample of 195 M&A cases with previous strategic alliances. Among these cases 35% of the strategic alliances were in the manufacturing sector, 20% in marketing, 14% in technology transfer, 12% in R&D, and 1% in licensing. The remaining 18% involved multiple types of alliances, such as marketing and R&D.

Finally, we constructed a control sample. A stratified random sample of M&A cases without previous alliances (control group) was generated, which was at least twice the size of the sample of M&As with previous alliances (treated group). The selection was based on industry, company size, and acquisition year. A total of 517 cases were identified for the control group, while the treated group comprised 195 M&A cases, resulting in a dataset of 712 M&A cases. This dataset includes cases from 32 industries and 34 countries.[3] The top three representative acquirers' industries are manufacturing-related industries (29.5%), healthcare-related industries (21.2%), and investing and business services (14.6%). The top five acquirers' countries are the United States (36.2%), Japan (16.6%), India (6.3%), China (6.3%), and the UK (5.1%).

[3] A full list of countries and industries is available from the authors upon request.

Figure 7 exploits the longitudinal capacity of the data to depict the progression of the percentage of firms with previous strategic alliances (represented by the connected dotted line) and cumulative frequency of M&As (represented by the plain solid line) over the analyzed period. Considering the time required for an acquisition to take place following a strategic alliance, it is expected that the percentage of strategic alliances would be higher in the initial years covered by the database. The figure confirms this expectation, as the percentage of strategic alliances is notably higher before 2013 (with the exception of 2008). The larger vertical gap in the cumulative frequency of M&As indicates a higher proportion of M&As in our sample occurring during that specific year. As the years preceding the financial crisis (particularly 2006 and 2007) appear to be overrepresented in the sample, we will control for this effect in our analyses.

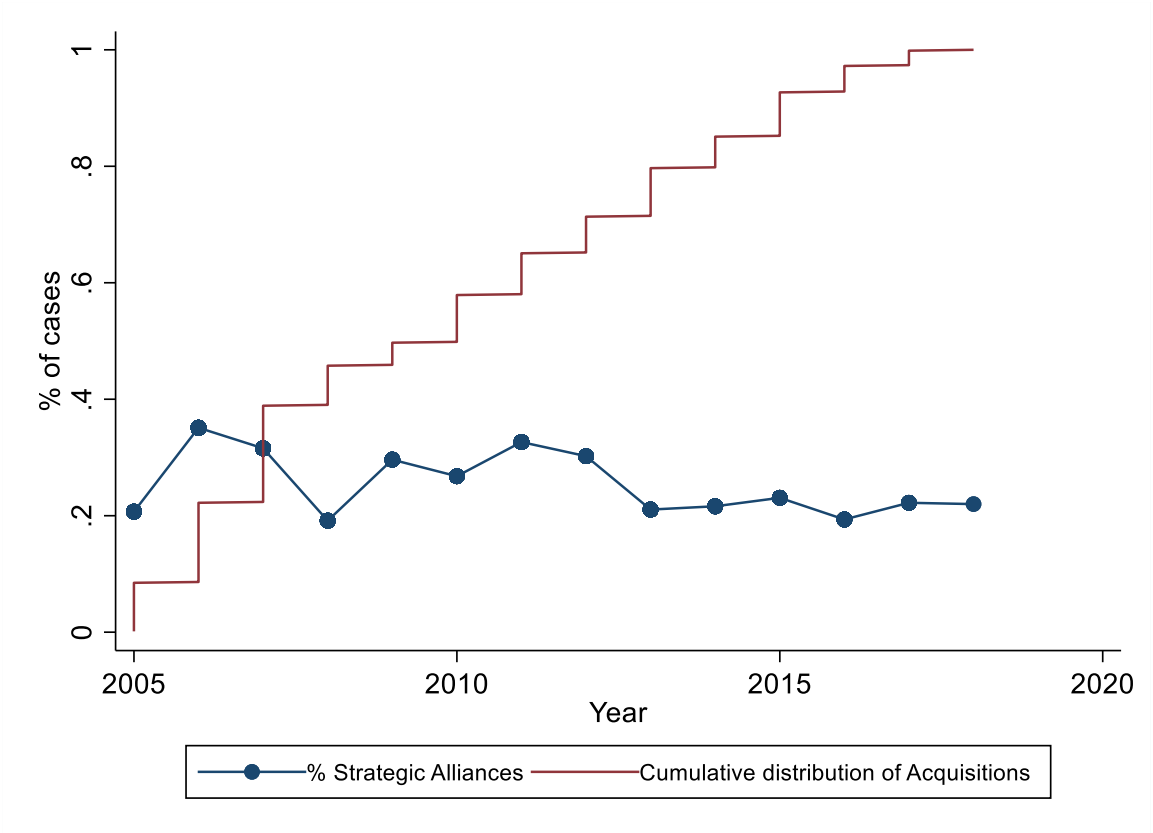


Figure 7. Percentage of strategic alliance and M&A cases over the years

3.4.2 Variables

Dependent variable. The change in Return on Assets (ROA) from one year before the acquisition to two years after the acquisition as indicated in Equation 2, with year 0 being the acquisition year (Porrini, 2004).

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

The calculation of Return on Assets (ROA) involves dividing net income by total assets. ROA is an efficient and widely used financial metric for evaluating company performance (Azeez, 2015). It takes into account the income statement and total assets to gauge the ability of assets to generate income. Due to its comprehensive nature and relative stability compared to net worth, previous M&A studies (Meeks and Meeks, 1981; Porrini, 2004) have used ROA as a performance measure (e.g., Haleblian and Finkelstein, 1999). In our study the dependent variable – ROA change – indicates the profitability of a company's total assets in generating after-tax profits following the acquisition. To construct this variable we collected accounting data (specifically, ORBIS, EIKON) from the years 2004 (one year prior to the first M&A) to 2020 (two years after the last M&A).

Independent variable. It reflects if the acquirer and target firms had a strategic alliance prior to the acquisition. To operationalize this variable we created a dummy variable for which a value of '1' was assigned to cases in which acquiring firms had a strategic alliance with the target (referred to as a courtship period between the two firms). A value of '0' was assigned to M&A cases in which the acquiring and acquired firms did not have a previous strategic alliance with each other.

Moderating Variables. We formulated hypotheses to explore the positive moderating role of familiarity in the relationship between previous strategic alliance and post-acquisition performance. Our study has two hypotheses, each focusing on a different measure of familiarity. The first hypothesis (H1) examines market familiarity, which is defined as M&As

in which both the acquirer and target companies have their headquarters in the same country and operate within a highly related industry. We consider that two firms are operating in a highly related industry when the first two SIC codes coincide (Anand and Singh, 1997). It is worth noting that approximately one-third of the sampled M&A cases reveal market familiarity according to our definition. The second hypothesis (H2) addresses cultural familiarity, which is assessed through the concept of cultural distance. Cultural distance quantifies the extent to which shared norms and values differ across countries (Hofstede, 2001). We calculate the cultural distance between the acquirer and target countries using the Kogut-Singh (1980) method. We used Hofstede's six dimensions, namely power distance, individualism, masculinity, uncertainty avoidance, long-term orientation, and indulgence. Note that in our measure of cultural familiarity domestic M&As were assigned a value of '0' by design.

Control variables. Nine control variables were used, categorized according to their unit of analysis: acquisition-level (number of workers, related acquisition, and financial crisis), alliance-level (comprehensive alliance), acquirer-level (acquirer experience, public company, industry dummies, and country dummies), and target-level (high-tech target). We describe each variable in detail below.

Number of workers: This variable represents the average number of employees from year t-1 to year t+1. Previous literature has indicated an inverse relationship between the size of acquirers and financial returns in the M&A process (Moeller et al., 2004). To enhance the interpretability of the coefficients, the value is divided by 1000.

Related acquisitions: The industrial relatedness between acquirers and targets is commonly believed to influence the post-acquisition performance of the resulting firms (King et. al., 2004). The measure of industrial relatedness between the target and acquirer industries is based on the four-digit standard industry classification code (Sirower, 1997). The variable

is assigned a value of ‘3’ if the target and acquirer share the same primary three SIC codes, ‘2’ if they share the same primary two SIC codes, and ‘1’ if the two primary two SIC codes do not coincide.

Financial crisis: We controlled for the effects of undertaking an M&A deal during the global financial crisis period (Vendrell-Herrero et al., 2018). Thus, acquisitions between the years 2008 and 2012 were coded as ‘1’, and ‘0’ otherwise.

Comprehensive alliance: As mentioned above, 18% of the sampled alliances involve multiple types of alliance. We posit that repeated alliances may create additional opportunities for information and resource exchange, potentially influencing post-acquisition performance (McCarthy and Aalbers, 2022). The comprehensive alliance variable is a dummy variable that takes the value ‘1’ if the acquirer and target firms have had more than one type of strategic alliance before the acquisition, and ‘0’ otherwise.

Acquirer’s experience: Acquisition experience can influence subsequent acquisition behavior and post-acquisition performance (Cerrato et al., 2016; Hayward, 2002). Previous research in the field of M&A has demonstrated the occurrence of adaptive learning during past acquisitions, which carries over the future acquisitions (Cuypers et al., 2017). Consequently, a more experienced acquirer may benefit from an ability to anticipate the competitors’ behaviors and adjust its strategy accordingly (Fudenberg and Levine,1998). We calculated the total number of acquisitions for each acquirer in the comprehensive M&A dataset obtained from SDC spanning the period from 1965 to April 2022, consisting of 132,360 cases. We then sorted all the cases in descending order based on the number of acquisitions, obtaining the data for the top 500 historical acquirers. Among the top acquirers, 92 are present in our dataset, approximately 13% of the sampled acquisitions. The acquirer experience variable is a dummy that is assigned a value ‘1’ if the acquirer is among the top 500 acquirers, and ‘0’ otherwise.

Public company: The type of acquiring company can potentially influence the post-acquisition performance, as private acquirers have been found to pay lower prices for target firm assets compared to public acquirers (Bargeron et al., 2008). To account for this, we distinguish between publicly owned companies, taking the value of '1', and private or formerly public companies, assigned a value of '0'.

Industry dummies: We incorporated dummy variables for the top three representative industries of the acquiring firm, namely manufacturing, healthcare, and investment and business services.

Country dummies: We accounted for the headquarters' location of the acquiring firms by including dummy variables for each of the 34 countries represented in our sample.

High-tech target: Due to the higher level of uncertainty associated with high-tech industries compared to other industries (Ragozzino and Moschieri, 2014), post-acquisition performance in these industries may exhibit greater volatility. We control for this effect by introducing a dummy variable that takes '1' if the target firm operates in a high-tech industry as defined by OECD Directorates for Science (2011), and '0' otherwise. Of the sampled target firms, 271 operate in high-tech industries, which is approximately 38% of the acquisitions considered.

3.4.3 Empirical strategy

We begin by examining the baseline effect of a previous strategic alliance on post-acquisition performance through Ordinary Least Squares (OLS). The estimated equation is as follows:

$$ROAchange_{i,t-1\ to\ t+2} = \alpha_0 + \alpha_1 * PSA_{i,t} + \Omega_i + \vartheta_c + \vartheta_s + \vartheta_p + \varepsilon_i \qquad (2)$$

where subscript i denotes the firm, Ω_i represents a vector of control variables including the number of employees, financial crisis period, comprehensive alliance, acquirer experience, and high-tech target. Additionally, ϑ_c denotes the acquirer's country dummies, ϑ_s indicates

acquirer's industry dummies, ϑ_p indicates acquirer's public firm status dummy, and ε_i is the error term. Subsequently, we test the moderating hypotheses of market and cultural familiarity by introducing the respective interaction effects, as illustrated in the equations below:

$$ROAchange_{i,t-1\,to\,t+2} = \alpha_0 + \alpha_1 * PSA_{i,t} + \alpha_2 Market * PSA_{i,t} + \Omega_i + \vartheta_c + \vartheta_s + \vartheta_p + \varepsilon_i \quad (4)$$

$$ROAchange_{i,t-1\,to\,t+2} = \alpha_0 + \alpha_1 * PSA_{i,t} + \alpha_3 Cultural * PSA_{i,t} + \Omega_i + \vartheta_c + \vartheta_s + \vartheta_p + \varepsilon_i \quad (5)$$

where Market refers to market familiarity (dummy) and Cultural refers to cultural distance (index). H1 will be supported if $\alpha_2 > 0$, and H2 will be supported if $\alpha_3 < 0$.

This estimation procedure may be subject to bias due to the presence of confounding variables; that is, variables that explain the decision to undertake a previous strategic alliance may be the same as those that explain post-acquisition performance. To address this endogeneity issue, we implement three independent matching procedures, all of which rely on the principle of conditional independence. In other words, by conditioning the treatment (having a previous strategic alliance) on a set of covariates, our treatment becomes comparable to a randomly assigned treatment (Abdia et al., 2017).

There are two characteristics that differentiate matching procedures into three groups. The first is whether the matching is based on propensity scores or stratification techniques. Propensity Score Matching (PSM) uses predicted values from a logistic regression model, with the treatment variable as the dependent variable, to match treated and untreated observations. In contrast, the Coarsened Exact Matching (CEM) defines strata, such as combinations of size class and industries, and eliminate strata in which only treated or untreated groups are represented. Furthermore, CEM assigns weights to each observation based on their sample and strata representativeness. The main advantage of PSM is its ability to reduce bias between the treated and untreated groups, enabling more robust comparisons by matching each case of the treated and untreated groups based on their propensity score (Aquilante and Vendrell-Herrero, 2021; Dhanorkar, 2019). In contrast, the main advantage of

CEM is its ability to ensure that correcting imbalance of one variable does not affect the imbalance of any other variable (Blackwell et al., 2009).

The second characteristic is the use of weights. While CEM inherently requires the use of weights, PSM can be implemented both with weights (e.g., Kernel) and without weights (e.g., One-to-One). For the purpose of robustness, our research differs from previous literature that compared only CEM versus PSM (e.g., Dhanorkar, 2019) or One-to-One versus Kernel (Aquilante and Vendrell-Herrero, 2021). Instead, we compare the results obtained from analyzing the full sample with those derived from employing One-to-One, Kernel, and CEM matching techniques. This comprehensive approach enhances the reliability and validity of the findings.

3.5 Results

3.5.1 Descriptive statistics

Table 5 shows the distribution of different scenarios ordered by their level of familiarity with the target: (1) market familiarity (33% of observations); (2) domestic acquisitions in different industries (31.3%); (3) cross-border acquisition with below median cultural distance (18.1%); and (4) cross-border acquisition with above median cultural distance (17.6%). The table also reports the conditional probability of having a previous strategic alliance in each of these scenarios. Notably, the conditional probability of having a previous strategic alliance appears to increase with the level of unfamiliarity. Specifically, the probability of having a previous strategic alliance is 17% for scenario 1, rises to 24% for scenario 2, and reaches 39% and 38% for scenarios 3 and 4, respectively. These descriptive findings suggest that managers of acquiring firms may follow the same logic as the current organizational learning theory, indicating a greater potential to learn from partnering with unfamiliar targets (e.g., Enkel and Gassmann, 2010; Ho and Wang, 2015; Sirmon and Lane, 2004).

Table 5. Sample composition

Acquisition	Degree of familiarity	Observations		Previous Strategic alliance
		Frequency	Percentage	Percentage
Domestic	Market familiarity	235	33.0%	17.5%
	Only country familiarity	223	31.3%	24.2%
	All	458	64.3%	20.9%
Cross-border	Cultural unfamiliarity (below median)	129	18.1%	39.5%
	Cultural unfamiliarity (above median)	125	17.6%	38.4%
	All	254	35.7%	38.9%
All cases	All	712	100.0%	27.4%

Table 6 displays the means and standard deviations of selected variables by the previous alliance status. The Kruskal-Wallis test is applied to evaluate whether the samples of two groups stem from the same distribution (Vendrell-Herrero et al., 2022). This analysis reveals no significant differences between the two groups concerning the variables “Financial Crisis Period”, “High-tech target”, and industry dummies ($p>0.1$, except for the machine and equipment industry). However, there are significant differences at the 5% level ($p<0.05$) for “ROA change,” “Related acquisitions”, and “Acquirer experience”. Moreover, there are differences at the 1% level ($p<0.01$) for variables such as “Number of Workers/1000,” “Public company,” “Cross-border M&A”, “Public Company”, “Comprehensive alliance”, and “Cultural distance”. These results suggest the presence of bias between the treated and control groups, which may affect the validity and consistency of the findings. To mitigate the differences between these groups, three distinct matching procedures are performed.

Table 6. Means and Standard Deviations by Previous Strategic Alliance status

	Acquisition **without** previous **Strategic Alliance**	Acquisition **with** previous **Strategic Alliance**	**Kruskal Wallis** (χ^2)
# Observations	517	195	
% Observations	72.6%	27.4%	
ROA Change	-2.05	0.82	3.85**
	(23.90)	(7.81)	*0.050*
Cultural distance	0.73	1.01	9.35***
	(1.30)	(1.40)	*0.002*
# of Workers/1000	17.70	38.00	18.50***
	(37.42)	(70.12)	*0.000*
Related acquisitions	2.09	2.42	5.57**
	(0.94)	(2.31)	*0.018*
Cross-border M&A	0.30	0.51	26.63***
	(0.46)	(0.50)	*0.000*
Financial Crisis Period	0.40	0.43	0.41
	(0.49)	(0.50)	*0.522*
Comprehensive alliance	0.00	0.18	14.45***
	(0.00)	(0.39)	*0.000*
Acquirer experience	0.11	0.21	4.52**
	(0.32)	(0.41)	*0.033*
Public Company	0.82	0.72	8.22***
	(0.38)	(0.82)	*0.004*
Healthcare related	0.20	0.24	1.79
	(0.40)	(0.43)	*0.181*
Manufacturing related	0.32	0.25	3.62*
	(0.47)	(0.43)	*0.057*
Investing and business	0.06	0.04	0.81
	(0.23)	(0.20)	*0.368*
Other Industries	0.42	0.47	1.17
	(0.49)	(0.50)	*0.280*
High-Tech target	0.37	0.41	0.52
	(0.48)	(0.49)	*0.471*

Standard deviations are in parentheses. P-values for Kruskal Wallis tests are in *italics*. *** p<0.01, ** p<0.05, * p<0.1

3.5.2 Matching implementation

Regarding Propensity Score Matching (PSM), we generate propensity scores by conducting a logistic regression analysis with the previous strategic alliance as the dependent variable. The explanatory variables include number of employees, public company, cross-border M&A, cultural distance, acquirer experience, related acquisitions, and industry dummies. For One-to-One matching, we employ nearest neighbor matching without

replacement and a caliper of 0.1. As for Kernel matching, we use the Epanechnikov function to estimate matching weights (Heckman et al., 1997). This process yields a sample size of 364 M&As for One-to-One matching and 706 M&As for Kernel matching. Regarding Coarsened Exact Matching (CEM), we created 247 strata, and our analysis identified treated and untreated groups in 78 of these strata, leading to a reduction of 329 observations. As a result, the CEM procedure produces a sample of 383 M&As.

Table 7 reports the quality of the matching procedures implemented. We assess the quality of matching by examining the reduction in the differences in means for each variable after implementing the matching procedures, compared to the differences observed in the full sample. This reduction in bias is calculated for each variable, and the average reduction bias rate provides an overall measure of the matching quality. Our findings indicate that all matching procedures effectively reduce the bias present in the full sample, but to varying degrees. The average reduction bias rate in One-to-One matching is 52.8%, for Kernel matching it is 80.9%, and for CEM it is 90.8%.

Table 7. Matching procedures

Observations	**Full Sample**	**One-to-One**		**Kernel**		**CEM**	
# **With** PSA	195	182		189		129	
# **Without** PSA	517	182		517		254	
# Total	712	364		706		383	
Related variables	Difference in means	Difference in means	Reduction bias	Difference in means	Reduction bias	Difference in means	Reduction bias
Cultural Distance	0.280	-0.279	0.40%	-0.138	50.71%	-0.039	86.07%
# workers/1000	20.299	-2.520	87.6%	-0.390	98.08%	4.241	79.11%
Related Acquisitions	0.330	0.220	33.3%	0.048	85.45%	0.219	33.64%
Cross-border M&A	0.208	-0.088	57.7%	-0.005	97.60%	0.000	100%
Acquirer experience	0.100	0.011	89.0%	0.017	82.90%	0.000	100%
Public Company	-0.098	-0.011	88.8%	0.000	100.00%	0.000	100%
Healthcare related	0.046	-0.017	63.0%	-0.009	80.43%	0.000	100%

Manufacturing related	-0.074	-0.016	78.4%	-0.010	86.49%	0.000	100%
Investing and business	-0.017	-0.011	35.3%	0.003	85.29%	0.000	100%
Other industries	0.045	0.044	2.2%	0.017	63.33%	0.000	100%
High-tech target	0.040	-0.022	45.0%	-0.016	60.00%	0.000	100%
Av. Reduction bias			**52.8%**		**80.9%**		**90.8%**

PSA stands for Previous Strategic Alliance.

3.5.3 Estimating the baseline effect

In Table 8 we present the results of estimating Equation 2 for the full sample, One-to-One matching, Kernel matching, and CEM to examine the impact of previous strategic alliance on post-acquisition performance, accounting for baseline effects. Consistent with prior research, we find a positive and statistically significant effect of previous strategic alliance on post-acquisition performance ($p<0.05$ in the full sample, One-to-One, and Kernel, and $p<0.01$ in CEM).

The results indicate that having a previous strategic alliance increases the change in Return on Assets (ROA) by a minimum of 1.98% (One-to-One) and a maximum of 4.16% (CEM). The estimates from the other two models fall within this range, with 3.81% for the full sample and 3.71% for Kernel matching. These results suggest that the true effect of a previous alliance strategy on ROA change may lie between 3.5% and 4%. The following analyses further explore the enhancing effect variation across different acquisition contexts.

Table 8. The effect of PSA on Post-acquisition performance (Baseline)

	(1)	(2)	(3)	(4)
	Full sample	One-to-One	Kernel	CEM
PSA (Previous Strategic Alliance)	3.8180**	1.9878**	3.7097**	4.1603***
	(1.5704)	(0.9429)	(1.5762)	(1.4460)
	0.0153	*0.0358*	*0.0189*	*0.0043*
#Workers/1000	-0.0076	-0.0025	-0.0075	-0.0026
	(0.0065)	(0.0043)	(0.0077)	(0.0051)
	0.2403	*0.5607*	*0.3295*	*0.6158*
Financial Crisis Period	-2.3653	0.1129	-2.6827	0.3945

	(1.9320)	(0.9244)	(1.8901)	(1.3323)
	0.2213	*0.9029*	*0.1563*	*0.7673*
Comprehensive alliance	-1.8337	-0.8710	-1.4929	-2.0320
	(1.2115)	(0.8052)	(1.1324)	(1.4450)
	0.1306	*0.2802*	*0.1878*	*0.1606*
Acquirer experience	2.7900	-0.1074	3.3471	0.0741
	(2.0957)	(0.6171)	(2.6794)	(1.0659)
	0.1836	*0.8620*	*0.2120*	*0.9446*
High-tech target	1.8707	-0.2769	1.7636	-3.5605**
	(1.6070)	(0.9405)	(1.8752)	(1.7093)
	0.2448	*0.7686*	*0.3473*	*0.0380*
Constant	1.9714	-4.3745	1.4695	-7.7493
	(3.2467)	(2.6624)	(3.6844)	(4.8502)
	0.5439	*0.1014*	*0.6901*	*0.1111*
Observations	712	364	706	383
R-squared	0.182	0.154	0.257	0.110
Industry dummies	YES	YES	YES	YES
Country dummies	YES	YES	YES	YES
Public company dummy	YES	YES	YES	YES

Robust standard errors in parentheses. P-values in *italics*.*** p<0.01, ** p<0.05, * p<0.1. Country, industry, and public dummies refer to the acquirer firm.

3.5.4 Estimating the moderating effect of market familiarity

To test Hypothesis 1, which posits that the effect of previous strategic alliances on post-acquisition performance is greatest for domestic M&As in the same industry (market familiarity), we introduce the interaction term between previous strategic alliance and market familiarity into Equation 4. The results are in Table 9.

While the interactive term is marginally significant (p<0.1) in most models and non-significant (p>0.1) in the CEM specification, its economic value is substantial. In the full sample, One-to-One, and Kernel specifications, the effect of previous strategic alliances is multiplied by approximately 4, resulting in an increase of between 2.36% and 9.24% (2.36+6.87), 1.07% and 5.06% (1.07 + 3.98), and 2.20% and 9.27% (2.20 + 7.07), respectively. In the CEM specification, the effect roughly doubles from 3.21% to 6.65% (3.21 + 3.44). Overall, these findings provide moderate support for H1, suggesting that the effect of

previous strategic alliance on post-acquisition performance is amplified when the acquiring and acquired firms operate in the same country and industry (market familiarity).

Table 9. Examining the moderation role of Market familiarity (H1)

	(1)	(2)	(3)	(4)
	Full sample	One-to-One	Kernel	CEM
PSA (Previous Strategic Alliance)	2.3671**	1.0771	2.2060**	3.2142**
	(1.1007)	(0.8201)	(1.0938)	(1.2959)
	0.0319	*0.1900*	*0.0441*	*0.0136*
PSA*market familiarity	6.8763*	3.9856*	7.0707*	3.4420
	(4.0723)	(2.0732)	(3.7222)	(2.5324)
	0.0918	*0.0555*	*0.0579*	*0.1750*
#Workers/1000	-0.0064	-0.0030	-0.0079	-0.0037
	(0.0059)	(0.0047)	(0.0079)	(0.0049)
	0.2778	*0.5166*	*0.3215*	*0.4548*
Financial Crisis Period	-2.4217	0.0454	-2.7198	0.2452
	(1.9405)	(0.9015)	(1.8847)	(1.2996)
	0.2125	*0.9599*	*0.1495*	*0.8505*
Comprehensive alliance	-1.6370	-0.7490	-1.3072	-1.5747
	(1.2283)	(0.8409)	(1.1865)	(1.4215)
	0.1831	*0.3738*	*0.2710*	*0.2688*
Acquirer experience	2.5390	-0.4137	3.0750	-0.2456
	(1.9803)	(0.7013)	(2.5556)	(1.1237)
	0.2003	*0.5556*	*0.2293*	*0.8271*
High-tech target	1.8909	-0.3254	1.7715	-3.5556**
	(1.6020)	(0.9332)	(1.8445)	(1.6931)
	0.2383	*0.7276*	*0.3372*	*0.0365*
Constant	1.7429	-4.7126*	0.8820	-7.8716
	(3.2746)	(2.6785)	(3.8871)	(4.8727)
	0.5947	*0.0795*	*0.8206*	*0.1072*
Observations	712	364	706	383
R-squared	0.186	0.180	0.266	0.114
Industry dummies	YES	YES	YES	YES
Country dummies	YES	YES	YES	YES
Public company dummy	YES	YES	YES	YES

Robust standard errors in parentheses. P-values in *italics*.*** p<0.01, ** p<0.05, * p<0.1. Country, industry, and public dummies refer to the acquirer firm.

3.5.5 Estimating the moderating effect of cultural familiarity

To test Hypothesis 2, which proposed that the effect of previous strategic alliance on post-acquisition performance increases with decreasing cultural distance (cultural familiarity), we include the interaction term between previous strategic alliance and cultural distance in Equation 5. The results are in Table 10.

The interaction term is negative and highly significant, indicating that the benefits of previous strategic alliance on post-acquisition performance diminish as cultural distance increases. When the cultural distance is zero (equivalent to a domestic market), the performance enhancing effect of previous strategic alliance on ROA change is 5.12% ($p<0.05$) for the full sample, 3.63% ($p<0.01$) for One-to-One, 5.41% ($p<0.01$) for Kernel, and 5.61% ($p<0.01$) for CEM. Furthermore, the benefit falls by 1.37% ($p<0.05$), 1.56% ($p<0.01$), 1.61% ($p<0.05$), and 1.77% ($p<0.01$) respectively for each unit of cultural distance added. According to our estimation, the benefits of a pre-acquisition alliance completely wash away when the cultural distance reaches 3.73, 2.32, 3.35, and 3.17, respectively. Overall, these results strongly support H2, indicating that the effect of previous strategic alliance on post-acquisition performance diminishes as cultural distance increases.

Table 10. Examining the moderation role of Cultural familiarity (H2)

	(1)	(2)	(3)	(4)
	Full sample	One-to-One	Kernel	CEM
PSA (Previous Strategic Alliance)	5.1205**	3.6374***	5.4072***	5.6167***
	(2.0043)	(1.3621)	(2.0234)	(1.8043)
	0.0109	*0.0080*	*0.0077*	*0.0020*
PSA*Cultural distance	-1.3708**	-1.5660***	-1.6150**	-1.7705***
	(0.6340)	(0.5678)	(0.6395)	(0.6442)
	0.0310	*0.0062*	*0.0118*	*0.0063*
Cultural distance	0.3082	0.6041**	0.4926	0.6535**
	(0.3935)	(0.2608)	(0.3629)	(0.3169)
	0.4339	*0.0212*	*0.1751*	*0.0400*
#Workers/1000	-0.0074	-0.0029	-0.0078	-0.0021
	(0.0061)	(0.0044)	(0.0076)	(0.0053)

	0.2248	*0.5146*	*0.3047*	*0.6982*
Financial Crisis Period	-2.3613	0.1059	-2.6208	0.4388
	(1.9314)	(0.9126)	(1.8807)	(1.3263)
	0.2219	*0.9077*	*0.1639*	*0.7410*
Comprehensive alliance	-1.9175	-0.8570	-1.5779	-1.7056
	(1.2559)	(0.8115)	(1.1685)	(1.3731)
	0.1273	*0.2917*	*0.1774*	*0.2151*
Acquirer experience	2.7368	-0.2036	3.4079	0.1936
	(2.0883)	(0.6497)	(2.6974)	(1.1487)
	0.1905	*0.7542*	*0.2069*	*0.8662*
High-tech target	1.6196	-0.5968	1.3195	-3.7912**
	(1.5888)	(1.0299)	(1.8523)	(1.7627)
	0.3084	*0.5627*	*0.4765*	*0.0322*
Constant	1.7180	-5.2758**	0.6898	-8.5002*
	(3.3632)	(2.6214)	(3.9206)	(4.6261)
	0.6097	0.0450	0.8604	0.0670
Observations	712	364	706	383
R-squared	0.183	0.178	0.260	0.118
Industry dummies	YES	YES	YES	YES
Country dummies	YES	YES	YES	YES
Public company dummy	YES	YES	YES	YES

Robust standard errors in parentheses. P-values in *italics*.*** p<0.01, ** p<0.05, * p<0.1. Country, industry, and public dummies refer to the acquirer firm.

3.5.6 Robustness Test

In addition to the main analysis and the three matching strategies, we perform two robustness tests. First, we extended the measurement period for ROA change to cover four years (t-2 ~ t+2) instead of three (t-1 ~ t+2). The results obtained using this alternative measure are qualitatively consitent with those reported in Tables.[4]

Second, we examined the effect of previous strategic alliance separately for the four groups described in Table 11: market familiarity (β_1), country familiarity only (β_2), below median cultural familiarity (β_3), and above median cultural familiarity (β_4). This analysis allowed us to better assess whether familiarity acts as a prerequisite for learning (as suggested by relational learning) or if unfamiliarity provides greater learning potential (as advocated by

[4] Results mentioned in the text but not reported in tables are available from the authors upon request.

organizational learning). If the relational learning approach is correct, we would expect the intensity of the effect of previous strategic alliance to increase with the level of familiarity ($\beta_1 > \beta_2 > \beta_3 > \beta_4$). Conversely, if the organizational learning premises hold true, we would expect the intensity of the effect to decrease with the level of familiarity ($\beta_1 < \beta_2 < \beta_3 < \beta_4$). By examining the effects separately for each group, we can gain insights into the relationship between familiarity and the impact of previous strategic alliances. This analysis will help us discern whether familiarity or unfamiliarity plays a greater role in the learning potential derived from previous strategic alliances.

The results of our analysis are reported in Table 11. We find that the performance enhancing effect of previous strategic alliance is statistically significant only for domestic M&As ($p<0.05$). More importantly, our findings also demonstrate that the effect is strongest for the most familiar environment (market familiarity) and gradually diminishes with the level of familiarity ($\beta_1 > \beta_2 > \beta_3 > \beta_4$). This suggests that the intensity of the previous strategic alliance effect is greatest when the acquiring and acquired firms operate in the same industry, indicating the importance of market familiarity in driving performance improvements. As the level of familiarity decreases, the impact of previous strategic alliances becomes less pronounced. These findings support the relational learning perspective, whereby familiarity acts as a prerequisite for effective learning and performance enhancement through strategic alliances.

Table 11. The decreasing effect of PSA by the level of familiarity (robustness)

	(1)	(2)	(3)	(4)
	Full sample	One-to-One	Kernel	CEM
PSA*Market familiarity (β_1)	9.2607**	5.0927**	9.3078**	6.5836**
	(4.4790)	(2.1772)	(4.2324)	(2.7491)
	0.0391	*0.0200*	*0.0282*	*0.0172*
PSA*Only country familiarity (β_2)	3.3498**	2.3784**	3.1128**	4.4547***
	(1.3656)	(1.0963)	(1.2181)	(1.7162)
	0.0144	*0.0308*	*0.0108*	*0.0099*

PSA* CD (below median) (β_3)	1.9588	0.7414	1.7618	2.9720
	(1.4827)	(1.4216)	(1.6327)	(2.0591)
	0.1869	*0.6024*	*0.2810*	*0.1499*
PSA* CD (above median) (β_4)	1.6095	-0.3152	1.5827	1.2987
	(1.1860)	(0.7669)	(1.3442)	(0.9196)
	0.1752	*0.6814*	*0.2395*	*0.1588*
#Workers/1000	-0.0063	-0.0031	-0.0080	-0.0023
	(0.0059)	(0.0046)	(0.0080)	(0.0049)
	0.2866	*0.5023*	*0.3209*	*0.6330*
Financial Crisis Period	-2.4275	0.0806	-2.7120	0.2918
	(1.9447)	(0.8958)	(1.8957)	(1.3068)
	0.2124	*0.9284*	*0.1530*	*0.8234*
Comprehensive alliance	-1.7475	-0.7665	-1.4219	-1.5096
	(1.2254)	(0.7792)	(1.1608)	(1.3724)
	0.1543	-0.5248	3.0413	-0.2991
Acquirer experience	2.5009	(0.7213)	(2.5494)	(1.1274)
	(1.9795)	*0.4674*	*0.2333*	*0.7910*
	0.2069	*0.3260*	*0.2210*	*0.2722*
High-tech target	1.8227	-0.5667	1.6652	-3.6328**
	(1.6171)	(0.9541)	(1.9120)	(1.7047)
	0.2601	*0.5530*	*0.3841*	*0.0338*
Constant	1.7007	-4.8606*	0.7653	-8.1951*
	(3.2765)	(2.6096)	(3.8963)	(4.7783)
	0.6039	*0.0635*	*0.8443*	*0.0873*
Observations	712	364	706	383
R-squared	0.186	0.189	0.266	0.116
Industry dummies	YES	YES	YES	YES
Country dummies	YES	YES	YES	YES
Public company dummy	YES	YES	YES	YES

Robust standard errors in parentheses. P-values in *italics*.*** p<0.01, ** p<0.05, * p<0.1. Country, industry, and public dummies refer to the acquirer firm. PSA stands for Previous Strategic Alliance. CD stands for cultural distance. As explained in the text β_v refers to the order of familiarity, being the largest when v=1 and the smallest when v=4.

Combined with the descriptive evidence reported in Table 5, we find it noteworthy to highlight the following observations. While acquirer's managers may expect little learning potential in strategic alliances with the same industry and country targets (only 17% of these M&As are preceded by a strategic alliance, see Table 5), our analysis reveals that these contexts actually exhibit the greatest realized learning outcomes. Specifically, we observe a

statistically significant increase in ROA ranging from 5% to 9% (depending on the specification, all $p<0.05$). On the contrary, while acquirer managers may expect substantial learning potential in cross-border alliances (39% of these M&As are preceded by a strategic alliance, see Table 5), we observe that this is, in fact, the context with the lowest realized learning outcomes (between 0% and 2% ROA change depending on specification and degree of cultural familiarity, all $p>0.1$).

3.6 Discussion & Conclusion

Prior research suggests that pre-acquisition alliances have a positive impact on post-acquisition performance by providing greater opportunities for evaluating acquisition targets (Al-Laham et al., 2010; He et al., 2020, Porrini, 2004) compared to arms-length formal pre-acquisition evaluation (Cuypers et al., 2017, Gomes et al., 2020) and due diligence processes (Angwin, 2001). However, the present study reveals that this relationship is more nuanced than previously suggested. While confirming the notion that pre-acquisition alliances serve as a learning mechanism, the findings demonstrate that this effect is influenced by contextual factors. The analysis, based on a unique combined dataset from SDC Platinum, EIKON, and ORBIS covering 712 acquisitions, highlights that the positive effect of a pre-acquisition alliance on post-acquisition performance depends on the level of cultural and market familiarity with the partner's context. In line with our hypotheses, not all pre-acquisition alliances exert the same effect on acquisition performance. Specifically, strategic alliances facilitate acquirers *to learn about* the target firm by establishing psychological contracts that enhance mutual understanding between the companies. This type of learning is particularly achievable in familiar contexts in which formal organizational communication is complemented by more profound personal and emotional connections. These findings point to two important theoretical contributions for different streams of the M&A literature.

First, our study sheds light on how learning should be conceptualized in pre-acquisition strategic alliances. This conceptualization has two dimensions. First, our study reveals that learning processes during the pre-acquisition stages are influenced by external boundaries. Without the necessary prerequisites, learning is severely restricted or may not occur at all. Drawing on psychological contract theory (Rousseau, 1990; Thomas et al., 2003) we establish that in order to learn in pre-acquisition alliances it is essential to have shared beliefs concerning mutual obligations. This process goes beyond written contracts and is thus rooted in social cognition and social exchange motives. Second, we extend the notion of learning *from* as opposed to *about* the partner. This distinction was initially proposed and examined in the context of R&D alliances between pharmaceutical and biotechnology firms, which revealed that learning about the partner (or partner-specific experience) in regular alliances has a limited impact on joint project performance (Hoang and Rothaermel, 2005). In contrast, our findings indicate that learning about the partner is paramount in the context of pre-acquisition alliances. Taken together, the evidence seems to suggest that the theoretical lenses used to analyze strategic alliances may be contingent on expected outcome. In most cases alliances are designed to maximize joint project performance (Ragozzino and Moschieri, 2014), making organizational learning models that focus on resources (see Das and Teng, 2000) and knowledge (Grant and Baden-Fuller, 2004) suitable, as they emphasize technical learning or learning from (or with) the partner. However, in fewer cases – those in which alliances serve as a pre-acquisition stage (as in our study) – relational learning models that center on the psychological contract become more important, as they focus on learning about the partner and enhance the acquisition process. We recognize that this potential for different theoretical and analytical frameworks for strategic alliances, depending on the expected outcome (i.e., joint project or post-acquisition performance), opens up an important avenue for further exploration in future research.

Second, the study provides valuable insights into the relationship between M&A and strategic alliances literatures, addressing the need for dialogue and integration between these two bodies of knowledge (Angwin et al., 2020). We contribute to this stream of research by investigating this relationship while considering important contextual factors. Previous research investigating the performance of acquisitions preceded by alliances has been limited to specific industries or single countries, thus providing findings pertaining to familiar contexts. Therefore, investigating the impact of cultural and market familiarity on this relationship is novel and of great value for a deeper understanding of the nuanced effects. Our study is the first to offer a comprehensive investigation of the relationship between the presence of a pre-acquisition alliance and post-acquisition performance in familiar and non-familiar contexts.

In addition to the theoretical contributions, our study advances the level of empirical rigor applied to analyze the relationship between pre-acquisition alliances and post-acquisition performance. We propose an empirical strategy that addresses endogeneity issues, specifically sample selection bias and confounding variables. While previous research used random control groups, we propose a series of matching techniques that ensure comparability between treatment and control groups. Our analyses incorporated both weighted and non-weighted matching techniques. As a result, this study is the first attempt to examine the endogeneity-corrected effect of a previous alliance with the target on acquisition performance.

Despite these merits, however, this study is not without its limitations, which open up opportunities for future research. First, our study is constrained by the use of secondary data, which prevent us from specifically assessing the exact interactions and personal networks, as well as the precise degree of psychological contracts and common ground generated in different familiarity settings. A mixed methods approach based on primary data collection would allow us to investigate the micro-foundational relational aspects during previous

alliances and understand their role in facilitating or hindering relational learning and the subsequent impact of acquisitions. For instance, qualitative work could explore the micro-foundational mechanisms that contribute to learning about the partner. This could be complemented by the development of a familiarity scale through a survey-based method. Second, apart from the variable "comprehensive alliance", our work does not control for the level of interaction between acquirer and target managers. Future research could leverage big data methods to precisely measure the interactions between managers virtually (e.g., through social networks, see Heavey et al., 2020) and physically (e.g. through mobile geolocations, see Testoni et al., 2022). Last, while the ROA change is commonly used in the literature to assess acquisition performance in general (Haleblian and Finkelstein, 1999), and more specifically the impact of pre-acquisition alliances on post-acquisition performance (e.g., Porrini et al., 2004), it is important to note that this variable alone does not capture all the learning outcomes, including innovation outcomes, obtained after the acquisition. Therefore, it is important for future research to investigate whether our findings remain consistent when using other acquisition performance measurements. This approach will enable a more comprehensive understanding of the effects of pre-acquisition alliances on various dimensions of organizational performance.

This study also highlights several important practical implications. Most acquiring companies prioritize time and efficiency factors when evaluating acquisition opportunities in order to outperform their competitors. However, focusing on only efficiency may not always be the best approach. This narrow perspective can lead to adverse reactions and ultimately manifest during the implementation stage, thereby jeopardizing the acquisition performance. Given that M&As are longitudinal processes (Shi et al., 2012), it is insufficient to start sharing resources, cooperating, learning, and integrating only after the acquisition without prior knowledge. Therefore, establishing a collaborative relationship with the right partner before

acquisition creates opportunities for knowledge sharing, learning, and achieving synergies (Gomes-Casseres et al., 2006, Porrini, 2004). By doing so, firms gain a head start.

Our study specifically highlights the benefits of relational learning derived from a previous alliance. In addition to obtaining first-hand information through organizational learning, such as strategic fit and financial aspects, relationship learning helps build interpersonal networks, generate psychological contracts and common grounds between interorganizational individuals, and ultimately benefit pre- and post-acquisition performance. This learning about the partner differs from the learning obtained through consulting companies (e.g., due diligence) and can be specifically valuable for facilitating future inter-organization integration, thereby boosting post-acquisition performance.

Furthermore, among the few companies that consider establishing a strategic alliance relationship with the target, most decision-makers believe that there is more potential to learn from an unfamiliar alliance. However, our empirical study shows the opposite result by demonstrating that familiar contexts actually add greater value to the pre-acquisition alliances compared to unfamiliar contexts. Understanding the moderating role of familiarity in the partnership can assist decision-makers to identify a more appropriate partner to establish alliance relationships with and transfer the benefit to subsequent acquisitions.

In conclusion, by contextualizing acquisitions, this study has provided important insights necessary to advance our understanding of the underlying value of pre-acquisition alliances, that is, the consideration of market and cultural familiarity. The findings should motivate scholars to critically examine theories as they currently exist and further enhance our understanding of the observed but not fully explained relationship between pre-acquisition alliance and post-acquisition performance. Therefore, this study emphasizes that when considering undertaking a pre-acquisition alliance with a target, acquiring firms should prioritize learning about the partner rather than learning from the partner.

Study III: Dating, Break-up, or Get Married: Factors Explaining Strategic Alliances Turning into M&As

4.1 Introduction

Strategic alliances and mergers and acquisitions (M&As) have long been considered optional strategic choices for growth (Dyer et al., 2004; Yang et al., 2011). Firms choose to either form partnerships through strategic alliances or opt to acquire another company. Few decision-makers consider the interrelationship between strategic alliances and M&As. In recent years, a group of scholars has begun to explore the relationship between alliances and M&As and has identified a tendency: prior alliances with the target contribute to post-acquisition financial performance (Porrini, 2004) and technological performance (McCarthy and Aalbers 2022).

Several benefits can be gained from prior alliances with target before acquisition. For example, it results in better integration of knowledge and the generation of new technological knowledge and skills through the exchange of information and resources (e.g., Anand and Khanna, 2000; Inkpen, 1998; Kale and Singh, 2000; Tsang, 1999). Moreover, prior alliances offer opportunities for the two firms to become better acquainted with each other, potentially fostering trust (Hagedoorn and Sadowski, 1999), joint routines (Agarwal et al., 2012), common ground (Puranam et al., 2009), and a psychological contract (Rousseau, 1990, 1995) through relational learning.

Despite the benefits identified in current studies, the reality is that only a limited number of strategic alliances transition into mergers and acquisitions (M&As) (Ragozzino and Moschieri, 2014). According to historical data on strategic alliances and M&As from the Securities Data Corporation (SDC) database spanning 2005 to 2021, the transition rate from alliance to M&A is a mere 2.8%. It's important to note that a strategic alliance can have various outcomes, including completion, expiration, extension, pending status, or negotiation.

The alliance-to-M&A transition represents a distinct form of alliance termination (Noseleit et al., 2023).

When acquirers decide whether to acquire their alliance partners, several factors come into play. Recent research by Noseleit et al. (2023) has highlighted the influence of location-related factors on the likelihood of the alliance partner decision. Furthermore, Ragozzino and Moschieri (2014) have emphasized that, from an organizational theory perspective, a company's decision to transition from a partner to a target role implies a cautious approach to unfamiliar investments, allowing for the gradual development of the necessary skills to manage resource-intensive ventures. Both studies mention the importance of familiarity between the firms in the acquisition partner decision. However, the exact role of familiarity in this partner-to-target decision mechanism remains unclear. To address this issue, we argue that three factors related to familiarity – multiple experiences with the same partner in strategic alliances, previous acquisition experiences of the alliance partner, and industry relatedness – play a crucial role. Increasing familiarity is likely to enhance the likelihood of a partner-to-target transition due to a deeper understanding of the partner before acquisition.

Furthermore, while strategic alliances and M&A share some similarities and connections, they represent fundamentally distinct strategies, each with its unique set of advantages and disadvantages for fostering growth (Wang and Zajac, 2007). The decision of whether to consider acquiring an alliance partner appears to be closely intertwined with the element of timing, specifically, companies in different industries may value time efficiency differently. Although prior studies have delved into the decision-making processes for when to acquire and when to form alliances (Dyer et al., 2004), there has been a notable gap in research concerning how alliance partners perceive the significance of timing and its connection to potential partner-to-target decisions. The timing of when to acquire an alliance partner varies across different industries. For instance, while many industries benefit more from cultivating

long-term alliance relationships before opting for direct acquisition, the same may not hold true for high-tech industries. These sectors, characterized by frequent changes and uncertainties, place a premium on time efficiency, often prioritizing immediate acquisition over establishing extended alliance relationships. Neglecting the importance of timing can result in companies becoming mired in inefficient situations (Ragozzino and Moschieri, 2014), which can be a disadvantage when it comes to executing acquisitions. Therefore, we propose that high-tech industries are less likely to acquire their alliance partners and are more inclined to pursue direct acquisitions.

Analysing a dataset of 70,240 global alliance cases from SDC spanning from 2005 to 2021, we identified a total of 1,957 cases culminating in major or full mergers and acquisitions (M&As). Furthermore, we categorized these M&As into merger cases and acquisition cases. Our analysis reveal that factors such as familiarity, which includes having multiple alliance experiences with the same partner, the acquisition experience of the alliance partner, and industry similarity, all contribute to an increased likelihood of the partner-to-target decision in both merger and acquisition samples. Moreover, our findings indicate that while firms within the high-tech industry are generally less inclined to acquire their alliance partners, this observation is only statistically significant in the context of acquisition samples and lacks significance within the merger samples.

Our study contributes a unique perspective to the explanation of the partner-to-target transition decision mechanism. First, we examine the moderating role of familiarity, a concept often mentioned when discussing the benefits of previous alliances with the target. However, little research has delved into how familiarity influences the partner-to-target transition. While some scholars argue that familiarity contributes to finding common ground (Puranam et al., 2009), which can be advantageous for the acquirer by reducing competition in the bidding process and increasing the likelihood of acquiring the alliance partner (Testoni et al., 2022),

others hold a contrasting view. They suggest that familiarity with a target may diminish the potential for innovation post-acquisition (Ahuja and Katila, 2001). Consequently, firms may lean towards acquiring the alliance partner when they are more different and unfamiliar. Our study seeks to reconcile these contradictory perspectives by investigating the role of familiarity in this transition. Second, we consider the varying importance of time efficiency as perceived by firms in high-tech industry when explaining the transition from strategic alliances to Mergers and Acquisitions (M&As). This aspect holds significance because the partner-to-target transition involves staged investments, making it crucial to account for timing considerations in order to gain a more comprehensive understanding of the mechanism.

4.2 Background Literature and Hypotheses

4.2.1 Literature on partner-to-target transition

Literature often discusses the benefits gained from prior alliances with a target. These benefits primarily contribute to two key aspects. Firstly, acquiring an alliance partner can significantly alter a firm's competitive position within the industry, as detailed in Ryan-Charleton et al.'s 2022 paper. Secondly, previous alliances with the target can enhance post-acquisition performance, as demonstrated by studies such as Al-Laham et al. (2010), Meschi et al. (2017), and Porrini (2004). However, there has been limited focus within the literature on exploring the factors that either promote or hinder the transition of alliances into M&As.

Ragozzino and Moschieri (2014) were among the first to identify this gap. While recent scholarly attention has increasingly emphasized the interrelationship between alliances and M&A and the potential benefits generated, the actual transition rate from partnerships to acquisitions remains notably low in practice. Ragozzino and Moschieri explain this target-to-partner transition decision from three distinct perspectives. First, within the framework of organizational learning theory, previous alliances provide opportunities to access the

resources and information of partners and enable companies to acquire new knowledge and capabilities from each other. This encompasses learning how to exchange information, capabilities, and skills (e.g., Anand and Khanna, 2000; Kale and Singh, 2000), how to better manage the collaboration process (e.g., Barkema and Vermeulen, 2001), and how to evaluate the value of the alliance partner for acquisition (e.g., Gulati, 1999). Second, from an information economics perspective, allying with the target before acquisition rather than proceeding with a direct acquisition is a staged investment approach. This method mitigates adverse selection by enabling high-quality buyers to convey their value to potential acquirers, ultimately leading to a more comprehensive understanding of the target company due to reduced information asymmetry (e.g., He et al., 2020; Reuer and Koza, 2000). Third, when examined through the real options theory perspective, staging an M&A investment reduces risk and grants firms the flexibility to defer capital-intensive decisions until the uncertainty surrounding the investment subsides (e.g., Smith and Triantis, 1995).

Ragozzino and Moschieri's seminar paper explaining partner-to-target transition decisions from various perspectives, yet it does not delve into the aspect of relational learning that occurs during prior alliances with the target. This type of learning involves understanding the partner's working style, culture, and overall dynamics (Mirc, 2012), which fosters trust and mutual understanding (Gulati, 1995). Relational learning is closely connected to the concept of familiarity, where increased national cultural distance can heighten unfamiliarity, leading to complications in understanding and communication that may impede the transition from alliance to M&A.

However, there is a contrasting view that suggests differences can actually facilitate learning and lead to greater benefits from alliance relationships (Reus and Lamont, 2009). As a result, Noseleit et al. (2023) conducted research on how location impacts the likelihood of partner acquisitions. Their key findings indicate that the likelihood of acquisition tends to be

higher in cross-border acquisitions compared to domestic ones, and an increase in national cultural distance between the headquarters of the two alliance partner companies mitigates this effect. However, there is a contrasting view that suggests differences can actually facilitate learning and lead to greater benefits from alliance relationships (Reus and Lamont, 2009). As a result, Noseleit et al. (2023) conducted research on how location impacts the likelihood of partner acquisitions. Their key findings indicate that the likelihood of acquisition tends to be higher in cross-border acquisitions compared to domestic ones, and an increase in national cultural distance between the headquarters of the two alliance partner companies mitigates this effect.

4.2.2 Familiarity in prior alliance with target

Literature concerning learning in strategic alliances primarily revolves around the organizational learning perspective, which focuses on acquiring knowledge and skills from alliance partners through access to information and resources (Inkpen, 1998). This viewpoint suggests that there is a greater potential for learning when two companies are unfamiliar with each other (Muehlfeld et al., 2012), as this situation presents more unique learning opportunities (Zaheer et al., 2010).

On the other hand, relational learning emphasizes the development of trust and mutual understanding, which is more likely to occur in a familiar context. More specifically, familiarity fosters partner sense-making and enables the creation of psychological contracts between two companies, which in turn facilitates collaboration within alliances. Furthermore, the gains from relational learning during strategic alliances may pave the way for the transition of alliances to a higher strategic level, such as mergers and acquisitions. Therefore, our research aims to investigate the role of familiarity in the partner-to-target transition. We use multiple alliance experience, acquisition experience of alliance partner, and industry relatedness to measure familiarity.

4.2.3 Multiple alliances with the same partner and partner-to-target decision

A prior alliance with the target before engaging in M&A facilitates the exchange of information and resources (Porrini, 2004). This exchange helps to reduce information asymmetry (Balakrishnan and Koza, 1993; McCarthy and Aalbers, 2022), decrease uncertainty, and mitigate the potential for opportunistic behaviours (Conner and Prahalad, 1996; Robinson, 2008).

Furthermore, ongoing communication and collaboration between partner firms foster trust, ultimately leading to mutual understanding and the establishment of common ground - what can be described as "knowledge that is known and known to be known" (Puranam et al., 2009, p. 317). Additionally, it contributes to the development of psychological contracts, which are individual beliefs held within a relationship concerning mutual and reciprocal obligations (Rousseau, 1990), within the alliance partners.

We contend that when a company establishes multiple strategic alliances with the same partner, it creates more opportunities for interaction and communication compared to having just one alliance. Furthermore, spreading communication over different time periods and phases can help prevent information asymmetry or overload caused by addressing too many issues at once (Angwin et al., 2014). The frequent integrations increase the target management’s trust in the acquirer and benefit the acquirer by mitigating competition in the bidding process (Testoni et al., 2022). As an illustration, consider GlaxoSmithKline PLC (GSK)'s acquisition of Cellzome GmbH (CG) in 2012. Prior to this, they had formed various types of alliances, including marketing and R&D partnerships, between 2008 and 2010. The information and resources acquired during these alliances, along with the trust that developed between GSK and CG, contributed to their willingness to transition to an M&A arrangement after the strategic alliances. Furthermore, if a common ground and psychological contracts were established during these alliances, the two companies may have progressed to a deeper

level of relationship akin to a "courtship" stage. In such cases, they might be less inclined to seek other bidders, allowing the alliance partner to negotiate one-on-one and extract more value from the M&A deal (Bulow and Klemperer, 1996). We have further categorized merger and acquisition cases and argue that multiple alliances with the same partner may have a stronger effect in merger cases. This is because common ground and psychological contracts are more likely to foster a more equitable combination of the two companies. Therefore, we propose our H1a and H1b:

H1a: In general, the number of strategic alliances with the same partner increase the likelihood of partner-to-target transition.

H1b: The enhancing effect of multiple strategic alliances with the same partner on partner-to-target transition is stronger in merger cases.

4.2.4 Alliance partner's acquiring experience and partner-to-target decision

The acquisition experience of a company can significantly influence its subsequent acquisition behaviour (Cerrato et al., 2016; Hayward, 2002). This is primarily due to the adaptive learning that occurs during past acquisitions, which carries over to inform future M&As (Cuypers et al., 2017). In the context of alliance relationships, a partner with more acquisition experience demonstrates heightened sensitivity to information asymmetry (Reuer et al., 2004). Such partners are more likely to take efficient measures if issues related to information asymmetry arise, such as transferring the risk of overpayment issues from the acquirer to the target (Reuer and Ragozzino, 2008).

In fact, experienced acquirers may choose not to proceed with the acquisition of the alliance partner if they identify such issues during the alliance period. However, on the flip side, experienced acquirers possess heightened sensitivity to information and risk. This enables them to more accurately assess the value of their partner. When they recognize the partner as a potential target, they can gain a time advantage over potential bidders, a crucial

factor in extracting value from the alliance and progressing towards a potential acquisition deal. Moreover, experienced acquirers in alliance relationships are more skilled at discerning their partner's intentions to sell and can initiate signalling during the alliance process.

In general, acquirers in alliance relationships can better evaluate their partners due to their information sensitivity and efficient risk-reduction measures. We argue that experienced acquirers are more likely to enter into a strategic alliance partnership with the intention of potentially acquiring their strategic partner. With this purpose in mind, if the alliance progresses successfully, they are more likely to derive value from the relationship and ultimately acquire the alliance partner. This effect may be stronger in acquisition cases compared to merger cases. Based on this analysis, we propose the following H2a and H2b:

H2a: In general, if one partner in a strategic alliance is an experienced acquirer, the likelihood of a partner-to-target transition increases.

H2b: The enhancing effect of experienced acquirers in alliances on partner-to-target transition is more pronounced in acquisition cases.

4.2.5 Industry similarity and partner-to-target decision

Alliance partners in unrelated industries can access valuable information and resources that may not be available within their respective fields. They also gain insights and knowledge from different perspectives, including R&D, production, marketing, or distribution (Gomes et al., 2011). However, the situation changes when it comes to deciding whether to acquire the alliance partner. Unlike the collaborative, project-based nature of strategic alliances, M&A entails acquiring everything related to the partner, including both their collaborative and unrelated business operations. In such cases, alliances in unrelated industries are less likely to transition into M&A at a later stage.

In contrast, alliance partners from related or same industries encounter lower barriers to learning, which facilitates a better understanding and efficient exchange of resources and

benefits (Capron and Mitchell, 2004; Harrison et al., 1991). While the knowledge gained through alliance partners may not always be complementary, it is easier to establish mutual understanding and trust in this context of industry familiarity. However, allying with a partner from a related industry carries a higher level of risk concerning knowledge leakage, opportunistic behaviour, and free riding by partners (Lavie et al., 2022). Given these potential concerns, the level of dependence on alliance partners may decrease. In such cases, acquiring an alliance partner can be a viable strategy to mitigate the potential negative effects of alliances, increase control over partners, and eliminate a potential competitor following the alliance relationship.

Hence, we argue that while alliances in complementary industries may benefit more in strategic alliances, it is not necessary to transition the current alliance relationship into M&A. Conversely, alliance partners in more similar industries are more likely to transition to M&A. Considering that the primary reasons for acquiring the alliance partner in a related industry are to reduce alliance risks and eliminate potential competitors, this effect may be more pronounced in acquisition cases than in merger cases. We propose our hypotheses H3a and H3b accordingly:

H3a: The higher the industry similarity, the more likely the partner-to-target transition happens.

H3b: The enhancing effect of industry relatedness on partner-to-target transition is stronger in acquisition cases.

4.2.6 Strategic alliances in the high-tech industry

Strategic alliances and M&As differ significantly in terms of control and resource commitment (Gomes et al., 2011). First, strategic alliances offer a lower level of control and greater flexibility compared to M&As. As mentioned earlier, one major risk in strategic alliances, owing to the reduced control, is the potential leakage of key technological

competencies (Lavie et al., 2022). This risk becomes particularly significant in technology-related industries. On the other hand, M&As provide acquirers with full control over the target, minimizing such risks.

Second, considering resource commitment from a resource-based perspective, M&As can provide resources that acquirers can immediately utilize. This is of paramount importance, especially in the high-tech industry, where assets tend to have shorter lifespans than in traditional industries. For many acquirers, the efficient utilization of assets through direct acquisition may hold more value than establishing an alliance with a potential target and waiting for those assets to become obsolete.

In response to the rapid development of technology and digitalization within the high-tech sector, new models of strategic alliances, such as data analytics, the internet of things, and cloud computing, are emerging (He et al., 2023). This trend in strategic alliances within the high-tech industry further distinguishes it from M&As, allowing for even greater flexibility compared to traditional strategic alliances. Consequently, in the high-tech industry, companies may be less inclined to consider M&A as a result of alliance relationships.

4.2.7 The value of time in high-tech industry

The emphasis on immediate resource acquisition through M&As, as mentioned earlier, highlights the high value that the high-tech industry places on time efficiency, a trait that sets it apart from many other industries. The high-tech industry is characterized by a constant state of change and uncertainty. While forming alliance relationships with potential partners can indeed yield numerous benefits, this approach may not be the most suitable in such a volatile environment. In the high-tech sector, companies often prioritize seizing immediate growth opportunities over taking more time, despite the risk of losses due to unforeseen changes. (Ragozzino and Moschieri, 2014).

Furthermore, given the rapid expansion of technology companies, emerging high-tech firms often require additional resources to fuel their growth. In such cases, they may express interest in selling themselves as a potential acquisition target (Graebner and Eisenhardt, 2004). Acquirers who promptly seize the opportunity to acquire these emerging high-tech companies can benefit from the target's rapid growth following the acquisition. In contrast, acquirers who opt for the establishment of a long-term alliance relationship before acquisition may find that the final acquisition price significantly increases. Therefore, we put forward our hypothesis H4a and H4b:

H4a: High-tech companies are less likely to have partner-to-target transition

H4b: The weakening effect of high-tech industry on partner-to-target transition is stronger in acquisition cases.

The hypotheses model is as shown in Figure 8:

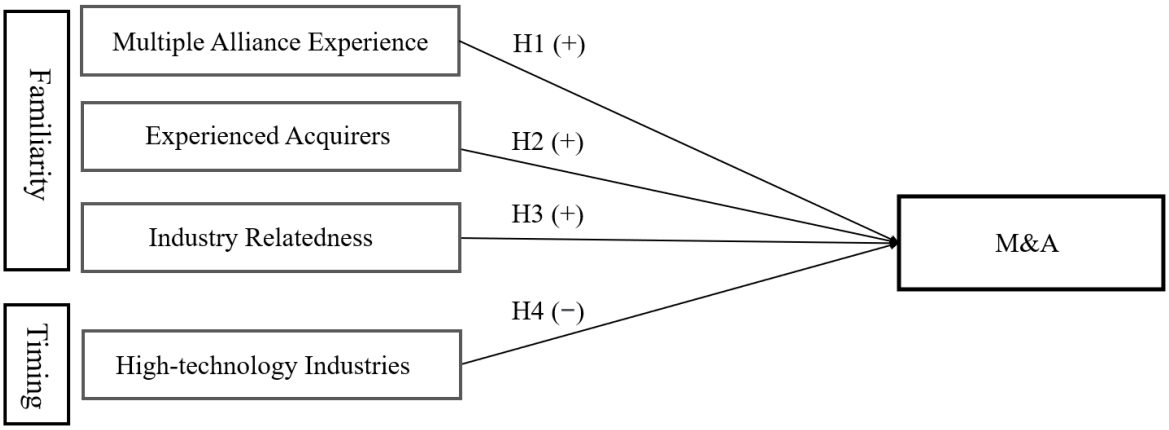


Figure 8. Hypotheses Model

4.3 Data and Variables

4.3.1 Sample and data

The original strategic alliance data were obtained from Security Data Corporation (Platinum) for the period spanning 2005 to 2019, encompassing a total of 79,414 worldwide strategic alliances of various types. Subsequently, the M&A data were also sourced from the same dataset, with the SDC M&A database containing 864,185 cases from 2005 to April 2022.

To identify cases where strategic alliances evolved into mergers and acquisitions (M&A), we employed C sharp language programs. The merging process comprised three key steps. First, we sorted all strategic alliances and M&A cases into separate lists. Second, we compared the strategic alliance dataset with the M&A dataset, marking cases where companies listed as alliance participants appeared as target names or acquirer names in M&A deals. These cases were designated as instances where strategic alliances transformed into M&A (defined as 1), while the rest remained classified as strategic alliances with no transition to M&A (defined as 0). Third, we excluded alliance cases involving more than two partners and cases with missing values in the participant list, such as undisclosed partners. After this, we merged the two datasets to create a new dataset comprising a total of 70,420 cases. The data-matching process is depicted in Figure 9.

We identified 1,948 alliance cases that transitioned into M&As after the termination of their strategic alliances. We then excluded cases involving minority acquisitions, partial interest acquisitions, remaining interest acquisitions, and asset acquisitions, resulting in 1,269 remaining cases. These were further categorized into merger cases and acquisition cases. According to SDC's definition, merger cases entail the combination of businesses or the acquisition of 100% of a company's stock, whether it is public or private. In contrast, acquisition cases refer to full or majority acquisitions.

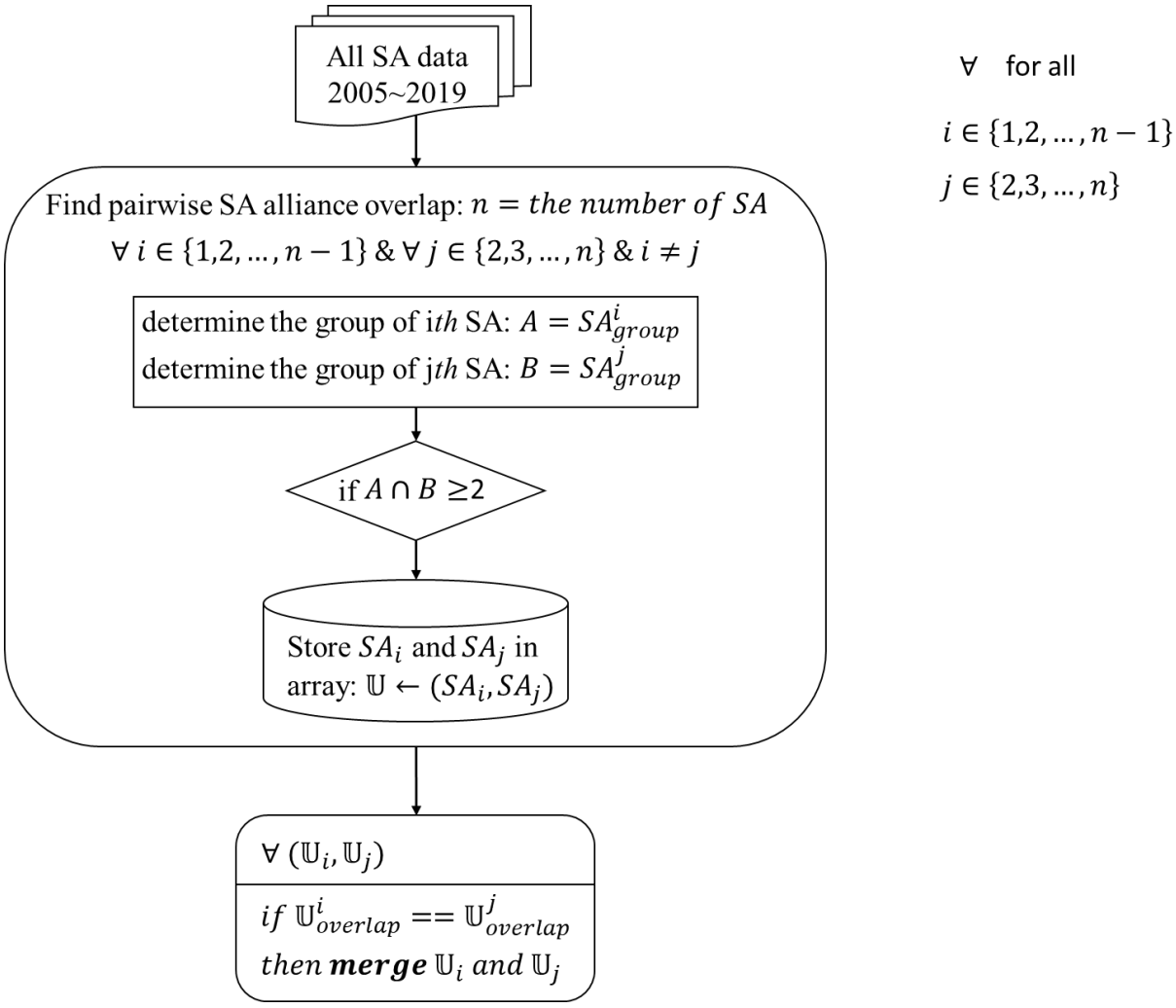


Figure 9. Strategic alliance and M&A cases merge flowchart

4.3.2 Variables

Dependent variable. It signifies whether a strategic alliance ultimately resulted in a merger and acquisition (M&A). The independent variable was operationalized by creating a dummy variable. In this dummy variable, a value of '1' was assigned to cases in which the strategic alliance eventually evolved into an M&A, covering mergers, majority acquisitions, and full acquisitions. Conversely, a value of '0' was assigned to cases in which the strategic alliance was either completed, suspended, expired, or extended without progressing to M&A. Subsequently, we distinguish between merger and acquisition outcomes. This enabled us to investigate the specific characteristics and results associated with these different forms of M&A.

Independent variables: four independent variables were used,

Multiple alliance experience: Companies that engaged in two or more alliances with the same partner were categorized as '1', while those with only one alliance were categorized as '0'. Among the 70,240 alliance cases, 2,523 cases (3.6%) were identified as having multiple alliance experiences.

Experienced acquirers: We calculated the total number of historical acquisitions made by each company from 1965 to April 2022 and arranged all cases in descending order based on this number. We excluded non-companies, such as investor groups and those seeking buyers, and selected the top 500 companies with the highest total number of historical acquisitions, designating them as experienced acquirers. In total, there are 507 companies defined as experienced acquirers, with these 17 additional companies having executed acquisitions 67 times. These top acquirers are denoted as '1'.

Industry relatedness: measured based on the relatedness of the 4-digit Standard Industry Classification (SIC) between a company and its alliance partner. The degree of industry relatedness is quantified on a scale from the lowest value '1' to the highest value '3' as defined by Porrini (2004). To provide more context, a value of '1' signifies that the two firms have different primary two SIC codes and belong to distinct industries. For example, if one firm has an SIC code '20XX,' it corresponds to the manufacturing industry, while another firm with '35XX' is in the technology industry. Furthermore, value '2' means that the two firms share the same primary two SIC codes, indicating that they are from related but not identical industries. For instance, an SIC code like '49XX' represents energy and transportation services, while '4911' pertains to electric services and '4941' is related to water supply services. When the value is '3,' it signifies that the companies share the same three SIC codes, indicating that they

belong to the same industry. This differentiation enables a more nuanced evaluation of industry relatedness in the context of strategic alliances.

High technology industry: we categorized industries in our dataset according to the OECD Directorate for Science (2011). This classification encompasses high-technology industries such as aircraft and spacecraft and related machinery (SIC codes: 3720, 3721, 3724, 3728, 3760, 3812, 3821, 3822); pharmaceuticals; medical precision and optical instruments (SIC codes: 2833, 2834, 2835, 2836, 3827, 3829, 3844, 3845); office, accounting, and computing machinery (SIC codes: 7370, 7371, 7372, 7373, 7374, 7375, 7376, 7377, 7378, 7379); and radio, TV, and communications equipment (SIC codes: 4812, 4813, 4822, 4832, 4833, 4841, 4899). The variable "high-technology industry" is assigned the value '1' when both firms belong to these high-technology industries, and '0' otherwise.

Control variables: We take into account a diverse set of control variables, encompassing three country-level variables and nine alliance-level variables. Each control variable may encompass multiple measures.

Country-level variables:

Research on cultural issues in M&A has experienced significant growth (Wang et al., 2020). Factors such as cultural and geographic disparities (Ahern et al., 2015), governance-related differences among countries, and economic and market-related variables have been recognized as relevant to M&A decisions. First, we contend that the determinants of whether to acquire a local company and a multinational company differ. Unlike local acquisitions, cross-border acquisitions entail the integration of corporate cultures and different national cultures (Stahl and Voigt, 2005). Consequently, achieving synergies among partners from different countries is a more complex endeavour. Second, the diversity within cross-border acquisitions should also be acknowledged (Noseleit et al., 2023). The acquisition of two European companies differs from the acquisition of two cross-continental companies. Some

scholars suggest that cultural distance has a negative impact on M&A decisions and performance, as it can hinder the flow of knowledge (Eriksson, 2011) and create biases and conflicts between partners. Conversely, other researchers argue that cross-border collaboration fosters learning by combining different resources (Vermeulen and Barkema, 2001). While the debate regarding whether cultural differences have a negative or positive impact on M&A decisions continues, it is indisputable that cultural-related factors are pivotal in discerning partner-to-target transition decisions. Third, the level of development in both the home and host countries can influence the decision to transition from strategic alliances to M&A. From a non-market perspective, factors like political risk levels (e.g., Harzing and Pudelko, 2016), foreign capital regulations (e.g., Fedderke and Romm, 2006), government interventions (e.g., Datta et al., 2015), and tax-related considerations (e.g., Kumar, 1996) impact the decision of home countries to acquire foreign companies. From an economic and market perspective, local economic conditions, market size, market development, and protections for minority shareholders (Xie et al., 2016) also deserve attention. Therefore, we include three country-related variables among our control variables.

Cross-border alliance: We created a dummy variable and assigned '1' to cross-border alliances and '0' to domestic alliances.

Cultural distance: This concept refers to the extent to which shared norms and values differ from one country to another, as defined by Hofstede (2001). To further distinguish cross-border alliances, we calculated cultural distance using the Kogut-Singh Index (KSI) (1980). However, our adaptation of the KSI incorporates Hofstede's six dimensions, which include power distance, individualism, masculinity, uncertainty avoidance, long-term orientation, and indulgence, as opposed to the previous four dimensions in the formula. In cases where a particular country lacks data for these dimensions, we estimated the values based on the

average values of its neighbouring countries. This variable is assigned a value of '0' for domestic alliances.

Country income: We use a country's income level to gauge its development. Specifically, the income classification data is sourced from the World Bank (2022) and is based on the Gross National Income (GNI) per capita from the previous year (2021). Countries are categorized as follows: Low-income countries have an income below $1,085, while lower-middle income to upper-middle income countries fall within the range of $1,086 to $13,205. High-income countries are those with incomes exceeding $13,205. We then create three groups to examine the relationship with country income: (1) both companies originate from high-income countries, i.e., developed countries; (2) one company is from a high-income country, while the other is from a middle-income country, representing a mix of developed and developing countries; (3) one company is from a high-income country, while the other is from a low-income country, signifying a combination of developed and third-world countries.

Alliance-related variables:

Equity Alliance: We considered the governance structure of the alliance by classifying equity alliances as '1' and non-equity alliances as '0'. An equity alliance can provide assurance for the partner's commitments (Gulati, 1995) and alleviate competitive tension between the firm and its partner in a similar business (Lavie et al., 2022).

Alliance intensity: Refers to the number of alliance types within each strategic alliance. If there is only one type of alliance, for example, an R&D alliance, it is defined as "1." If an alliance involves both marketing and R&D agreements, it is defined as '2,' and so on.

Multi-party alliances: We also assessed whether this constituted a multi-party alliance (coded as '1') when more than two parties were involved in the same alliance relationship or if one party was engaged in another alliance relationship during the same period. We included this

control variable because a relationship involving multiple parties generally exhibits more complex dynamics than a dyadic relationship (Fonti et al., 2017).

Alliance types: Initially, we differentiated licensing alliances (coded as '1') from contract-based alliances. Contract alliances typically entail fewer restrictions and specifications compared to licensing agreements and offer broader access to information and resources (Cohen and Levinthal, 1990). This broader access may enhance the likelihood of transitioning from an alliance to M&A. Furthermore, we further divided contract-based alliances into upstream alliances, encompassing manufacturing, R&D, and technology transfer, and downstream alliances, involving marketing and service collaborations (Porrini, 2004).

Status of alliance: Some studies suggest that an alliance relationship can be disrupted by the partner's acquisitions (Cui et al., 2011; Lavie et al., 2022). Similarly, the status of the alliance can also influence the M&A decisions of the partner. Therefore, we included three alliance statuses: completed, extended, and terminated.

Representative industries: We chose the three most frequently represented low- and medium-tech industries. These sectors are retail and wholesale, supply and logistics, and investment and real estate. We assigned a value of '1' to these industries and '0' to others.

Difference in size: We initially categorized the size of each partner into five groups based on their number of employees (N): small companies ($N \leq 50$, assigned value 1), medium-sized companies ($50 < N \leq 250$, assigned value 2), large companies ($250 < N \leq 1000$, assigned value 3), very large companies ($1000 < N \leq 10000$, assigned value 4), and mega-companies ($N > 10000$, assigned value 5). The differences in size were then calculated as the absolute value of the disparity between the two firms, resulting in values ranging from 0 to 4.

Public company: Research has shown that private acquirers typically pay lower prices for target firm assets than public acquirers (Bargeron et al., 2008). A prior alliance relationship between public companies may reduce the cost of potential acquisitions due to information

and resource exchange during the alliance period, consequently raising the likelihood of an acquisition decision. Public companies are designated as '1', while all other cases, including subsidiaries and private companies, are coded as '0'.

Financial crisis period: To account for the impact of engaging in an alliance deal during the global financial crisis period (Vendrell-Herrero et al., 2018), we designated alliances occurring between 2008 and 2010 with a value of '1,' while those outside this timeframe were assigned '0.'

4.4 Results

4.4.1 Descriptive data

The longitudinal data presented in Figure 10 provides insights into the transitions from partners to target firms. The overall conversion rate, which considers all forms of M&A, stands at a modest 2.8% (as indicated by the square dot line), falling notably short of theoretical predictions (Ragozzino and Moschieri, 2014). However, a more pronounced increase is noticeable between 2010 and 2013, suggesting a heightened rate of transition. This surge, observed in the initial years following the financial crisis, can be partially attributed to the necessity for many firms to collaborate in response to the financial crisis-induced challenges, ultimately leading to mergers or acquisitions. Additionally, we distinguished between merger cases and acquisition cases, revealing that the conversion rate from partner to target (dash line) is substantially lower than the rate when considering partner-to-partner transitions (long dash-dot line).

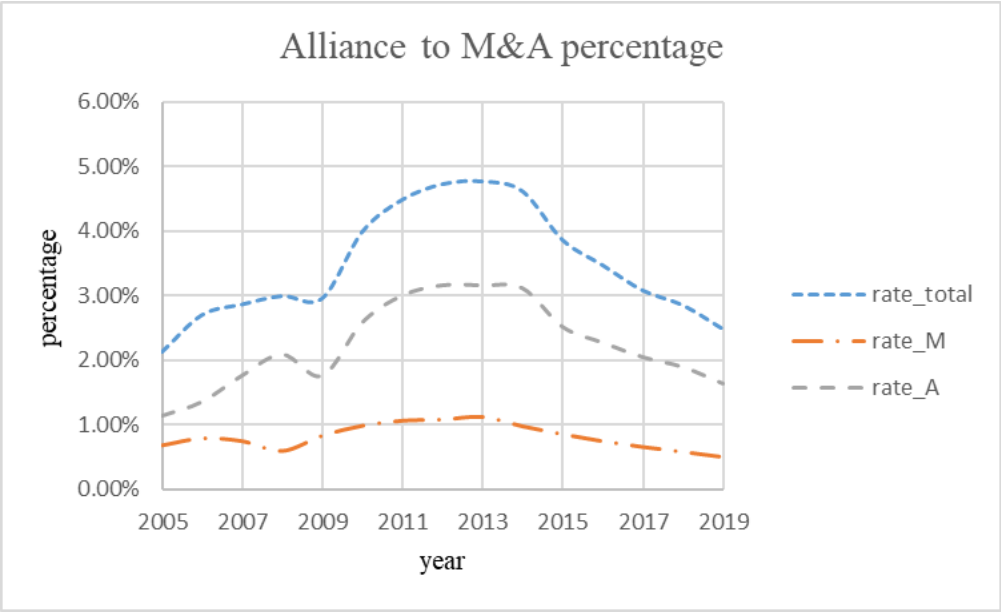


Figure 10. Yearly rate of alliance-M&A, alliance-merger, and alliance-acquisition.

Table 12 distinguishes between merger and acquisition cases and presents the results of alliance-to-merger and alliance-to-acquisition conversion rates in various industries. Initially, there were 48 industries in our dataset. To facilitate analysis, we calculated the total number of alliances in each industry from 2005 to 2019, grouping them into ten specific industries. The remaining industries were grouped together under "others," and their alliance-to-merger and alliance-to-acquisition rates were calculated.

The average alliance-to-merger rate stands at 0.62%, which is lower than the average alliance-to-acquisition rate, aligning with the trends observed in Figure 10. Among the ten industries, the mining and exploration sector exhibits a higher conversion rate in both merger and acquisition cases, with rates of 1.85% in alliance-to-merger and 4.23% in alliance-to-acquisition. In contrast, the high-technology industry demonstrates lower rates, particularly in alliance-to-acquisition, at only 0.96%, falling below the overall average rate of 1.63%.

Table 12. Alliance-Merger and Alliance-Acquisition rate by industry

Industry	Total Cases	M	A	Rate M	Rate A
high-tech services	23970	120	231	0.50%	0.96%
investment & real estate	7142	27	184	0.38%	2.58%
retail & wholesale	6426	45	126	0.70%	1.96%
supply & logistic	4489	24	72	0.53%	1.60%
mining & exploration	4161	77	176	1.85%	4.23%
electrical services	3071	12	31	0.39%	1.01%
oil & gas	2524	23	63	0.91%	2.50%
construction	2038	13	23	0.64%	1.13%
management	1359	5	34	0.37%	2.50%
automotives	1259	4	33	0.32%	2.62%
others	13,801	84	331	0.61%	2.40%
Total	56439	350	919	0.62%	1.63%

4.4.2 Main analysis: Logistic regression

Table 13 reports the results of logistic regression for the full sample, merger subsample, and acquisition subsample.

First, it's observed that having multiple alliance experiences with the same partner has a positive impact on the partner's decision to engage in an acquisition. Holding other variables constant, transitioning from a single alliance to multiple alliances increases the likelihood of an alliance converting into an M&A by 0.032 percentage points ($p<0.01$). This finding aligns with our hypothesis H1a. As for hypothesis H1b, which posits that the enhancing effect of multiple strategic alliances on partner-to-target transitions is stronger in merger cases, the results do not show a significant difference between the merger and acquisition samples.

Second, the results demonstrate a positive effect of a company's acquisition experience on its subsequent M&A decisions, aligning with H2a. This suggests that a company with a rich history of acquisitions can derive greater benefits from alliances, mainly due to the

acquisition-specific information and experience it possesses (Cohen and Levinthal, 1990). This enables them to more effectively assess potential targets, increasing the likelihood of acquiring the alliance partner when the partner's evaluation is favourable. Notably, the likelihood of an alliance transitioning into an M&A increases by 0.092 percentage points ($p<0.01$) when the alliance partner shifts from having minimal acquisition experience to being recognized as experienced acquirers. In the context of hypothesis H1b, which proposes that the influence of experienced acquirers in alliances is more pronounced in acquisition cases, the results indicate no significant difference between the merger and acquisition samples.

Third, the results indicate that a higher degree of industry relatedness between alliance partners correlates with a greater likelihood of pursuing further M&A activities. According to the estimated marginal effects, the probability of transitioning from an alliance to an M&A increases by 0.154 percentage points ($p<0.01$). This finding aligns with H3a, suggesting that companies in unrelated industries may find alliance relationships sufficient for specific tasks, with no need to progress to M&A. In contrast, partners in related or the same industry face lower learning barriers, enjoy better potential for mutual understanding, and are more likely to realize synergies that contribute to subsequent M&A decisions (Capron & Mitchell, 2004). Furthermore, it's worth noting that both the merger and acquisition samples exhibit a significant positive effect of industry relatedness on partner-to-target transition decisions. Notably, the coefficient value in the merger sample (1.007) is higher than that in the acquisition sample (0.461), indicating a potentially stronger enhancing effect in merger cases, contrary to the expectations of H3b.

Fourth, the results indicate an overall negative impact of the high-tech industry on partner-to-target transitions, aligning with H4a. When one or both of the alliance partners are from the high-tech industry, the likelihood of M&A decreases by 0.0525 percentage points ($p<0.01$). Notably, these results are only significant in the full sample and acquisition subsample,

suggesting that the high-tech industry places a premium on time efficiency and tends to seize potential acquisition opportunities promptly (Ragozzino and Moschieri, 2014). Although the high-tech industry tends to have a negative impact on merger samples, this effect is not statistically significant, in line with H4b.

Table 13. Logistic Regression Model for Alliance-M&As transition parameter

		Full sample	Merger sample	Acquisition sample
IVs	multiple alliance	0.938	1.022	0.973
		(0.079)	(0.157)	(0.093)
		[*.000*]	[*.000*]	[*.000*]
	acquisition experience	0.357	0.415	0.437
		(0.071)	(0.151)	(0.084)
		[*.000*]	[*.006*]	[*.000*]
	industry similarity	0.610	1.007	0.461
		(0.048)	(0.099)	(0.060)
		[*.000*]	[*.000*]	[*.000*]
	high-tech company	-0.245	-0.133	-0.538
		(0.065)	(0.134)	0.086
		[*.000*]	[*.323*]	[*.000*]
CVs Country-level related	cross-border alliance	-0.114	-0.153	0.048
		(0.162)	(0.363)	(0.187)
		[*.482*]	[*.674*]	[*.796*]
	cultural distance	-0.029	-0.235	0.055
		(0.017)	(0.045)	(0.020)
		[*.101*]	[*.000*]	[*.006*]
	both high-income	0.030	0.122	-0.126
		(0.085)	(0.175)	(0.104)
		[*.724*]	[*.485*]	[*.225*]
	high vs. middle income	0.059	-0.099	0.057
		(0.107)	(0.247)	(0.126)
		[*.581*]	[*.690*]	[*.650*]
	high vs. low income	-0.193	-0.958	-0.116
		(0.118)	(0.340)	(0.136)
		[*.103*]	[*.005*]	[*.395*]
CVs Alliance-level related	equity alliance	0.494	0.812	0.409
		(0.057)	(0.123)	(0.070)
		[*.000*]	[*.000*]	[*.000*]
	alliance intensity	-0.029	-0.045	0.042
		(0.042)	(0.091)	(0.052)
		[*.496*]	[*.618*]	[*.418*]
	multi-party alliance	-0.046	-0.070	0.012
		(0.060)	(0.124)	(0.077)
		[*.445*]	[*.575*]	[*.879*]

	licensing	-0.218	0.222	-0.314
		(0.129)	(0.224)	(0.174)
		[*.089*]	[*.320*]	[*.071*]
	manufacturing	0.081	0.011	0.080
		(0.070)	(0.153)	(0.084)
		[*.251*]	[*.943*]	[*.339*]
	marketing	0.203	0.469	0.054
		(0.082)	(0.158)	(0.106)
		[*.013*]	[*.003*]	[*.608*]
	R&D	0.036	-0.100	0.097
		(0.096)	(0.207)	(0.117)
		[*.707*]	[*.628*]	[*.408*]
	technology transfer	-0.271	-0.009	-0.839
		(0.120)	(0.207)	0.211
		[*.024*]	[*.965*]	[*.000*]
	completed	-0.078	-0.028	-0.064
		(0.051)	(0.109)	(0.063)
		[*.124*]	[*.800*]	[*.306*]
	extended	0.320	0.716	0.145
		(0.261)	(0.464)	(0.363)
		[*.220*]	[*.123*]	[*.690*]
	terminated	0.486	0.696	0.445
		(0.164)	0.296	(0.201)
		[*.003*]	[*.019*]	[*.027*]
	retail & wholesale	0.052	0.058	-0.028
		(0.082)	(0.171)	(0.101)
		[*.525*]	[*.735*]	[*.785*]
	supply & logistic	0.007	0.080	0.002
		(0.106)	(0.224)	(0.130)
		[*.948*]	[*.722*]	[*.988*]
	investment & real estate	0.182	-0.490	0.365
		(0.082)	(0.216)	(0.094)
		[*.026*]	[*.023*]	[*.000*]
	difference in size	0.036	-0.129	0.050
		(0.018)	(0.041)	(0.022)
		[*.046*]	[*.002*]	[*.022*]
	public	0.692	1.071	0.664
		(0.053)	(0.110)	(0.067)
		[*.000*]	[*.000*]	[*.000*]
	financial crisis period	0.1956527	0.224	0.248
		(0.063)	(0.129)	(0.076)
		[*.002*]	[*.083*]	[*.001*]
	Cons	-4.220	-5.958	-4.691
		(0.113)	(0.239)	(0.139)
		[.000]	[.000]	[.000]
	Log likelihood	-8479.67	-2410.34	-7003.48

	Correctly Classified	65.64% (cut-off=0.027)	70.86% (cut-off=0.0062)	53.27% (cut-off=0.0178)
	McFadden Pseudo R2 in logistic regression	0.0517	0.0842	0.0595
	McFadden Pseudo R2 in random forest	0.162	0.255	0.189
	#Observations	70,240	68,895	69,712

Standard errors in parenthesis and p-values in italics.
The results of marginal effects are available from authors upon request.

4.4.3 Robustness test: machine learning random forest model

The results of the logistic regression shed light on the underlying mechanisms influencing the dependent variable, namely, the likelihood of making an M&A decision following a strategic alliance, along with other relevant parameters. To further explore this relationship, we employed the random forest model, a machine learning method with some similarities to qualitative comparative analysis. This model allows for the flexible estimation of both continuous and binary dependent variables through a set of decision trees (Fiss, 2011).

Predictions derived from random forest models serve to validate the predictions made using regression models, which may have potentially biased coefficients. Notably, the model considers the quadratic effect of each variable, and the hyperparameters of the model are determined using the K-fold cross-validation method. In cross-validation, models that elucidate the relationships between variables are constructed using training data and subsequently evaluated with testing data (Lindner et al., 2022).

Following training by the random forest model, we observed substantial improvements in the R-squared values within the regression model. Specifically, in the total sample, the R-squared increased from 5.17% to 16.2%, in the merger sample from 8.42% to 25.5%, and in the acquisition sample from 5.95% to 18.9%. To enhance the transparency and interpretability of the model, we conducted an examination of SHAP values (Shapley Additive Explanations), as proposed by Futagami et al. (2021). The four independent variables studied, namely multiple alliance experiences with the same partner, experienced acquirers in alliances,

industry relatedness, and high-tech industry, these factors emerged as some of the top significant parameters in the full sample. Analyzing the SHAP values, it becomes evident that higher values in multiple alliances, experienced acquirers, and industry relatedness (indicated by red dots) tend to exert a positive impact on partner-to-target transition decisions, while higher values in the high-tech industry tend to have a negative impact. Notably, these results align with those obtained in the regression model. While machine learning random forest models offer a higher explanatory capacity compared to standard logistic regressions, the findings remain qualitatively consistent. The SHAP values for the four independent variables are presented below:

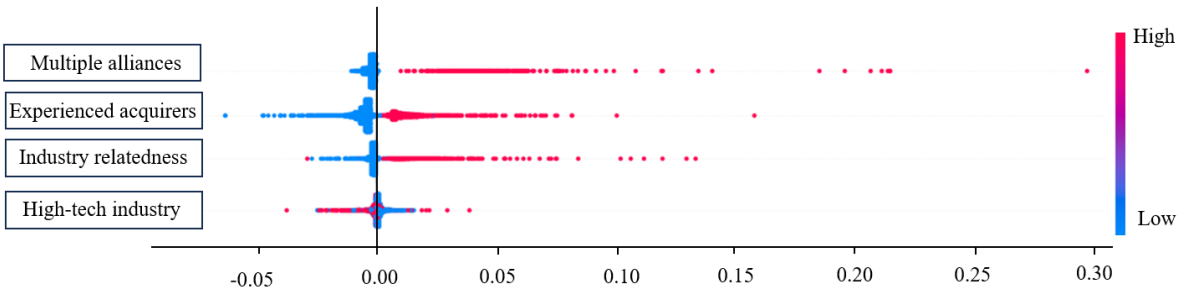


Figure 11. SHAP value for IVs (impact on model output)

4.5 Conclusion and implications

Engaging in a prior alliance with a target company before an M&A transaction offers a multitude of advantages. It facilitates a more seamless integration of knowledge and the acquisition of new knowledge and skills through the exchange of information and shared resources, as suggested by Inkpen (1998) and Tsang (1999). Moreover, these initial alliances create an environment where the collaborating firms can become better acquainted with one another, thereby fostering trust, promoting shared routines, establishing common ground, and cultivating a psychological contract. These outcomes are integral components of relationship learning, as highlighted by Agarwal et al. (2012), Puranam et al. (2009), and Rousseau

(1990). Consequently, M&A between alliance partners can serve as a strategic pathway to alter the competitive positioning of firms in the market and achieve growth (Hagedoorn and Sadowski 1999; Ryan-Charleton et al., 2022).

However, despite the recognized benefits of prior alliances, a relatively low percentage of strategic alliances transition into M&As. Little research has delved into the actual reasons that foster or hinder firms from acquiring their alliance partners. Ragozzino and Moschieri (2014) were among the first to identify this gap and offered an explanation for the partner-to-target transition rate from three perspectives: organizational learning, information economics, and real options theory. These viewpoints highlight the role of prior alliances in facilitating resource exchange, risk mitigation, and a more flexible decision-making approach by staging investments for acquisitions. Furthermore, Noseleit et al.'s (2023) recent study related to national culture investigates the influence of location-related factors on the likelihood of alliance partner decisions. They find that the likelihood of acquisition tends to be higher in cross-border acquisitions, and an increase in national cultural distance between the headquarters of the two alliance partner companies mitigates this effect.

Both studies offer valuable insights into understanding the alliance-to-M&A transition. However, due to the intricate nature of this transition, there remains a gap in our understanding of the underlying reasons. Our study seeks to fill this gap by delving into the factors that explain the partner-to-target transition. We place particular emphasis on the role of familiarity and the varying importance of time efficiency in the high-tech industry. Our results suggest that partner-to-target transitions are more likely to occur in familiar contexts, and the likelihood decreases when one or both of the alliance partners are from the high-tech industry. These findings make two significant theoretical contributions to the literature on strategic alliances and M&A.

First, our study illuminates the pivotal role of familiarity in elucidating the partner-to-target transition mechanism. When considering the benefits derived from prior alliances, two significant forms of learning emerge. First, there is the learning acquired from the alliance partner, which falls under the category of organizational learning. Second, there is learning about the partner, referred to as relational learning. Relational learning is of particular importance in understanding the potential transition from an alliance to an M&A, as it fosters mutual understanding and facilitates the development of psychological contracts (Puranam et al., 2009, Rousseau, 1990, 1995). These factors play a crucial role in encouraging the alliance partner to elevate the relationship to a higher level, such as M&A. Notably, relational learning is more likely to occur in a familiar context where the learning barriers are lower, making mutual understanding easier to achieve (Capron and Mitchell, 2004; Harrison et al., 1991). In our study, we gauge familiarity from different angles, encompassing multiple alliances that signify familiarity through ongoing interactions, experienced acquirers representing familiarity with the M&A context, and industry relatedness as an indicator of industrial familiarity. Consequently, our study stands as the first comprehensive investigation into the role of familiarity in the partner-to-target transition mechanism.

Our study offers valuable insights into the varying significance of time efficiency across different industries. We place particular emphasis on the high-tech sector, where firms tend to prioritize rapid acquisition opportunities over prolonged alliance relationships. This preference arises from the sector's dynamic and unpredictable nature. Considering the temporal aspect is crucial in comprehending the partner-to-target transition, as it unfolds over time. Understanding how firms across industries value time efficiency and make decisions regarding acquiring their alliance partners is pivotal to unraveling this complex process.

This paper holds significant managerial implications. Despite the numerous benefits associated with prior alliances, it is evident that many companies fail to recognize them.

Additionally, the lack of understanding regarding the link between alliances and M&A, as well as the potential advantages of prior alliances with a target before acquisition, is prevalent in practice. While some companies, such as those in the high-tech sector, may opt for direct M&A without prior alliances, it is essential for others to understand that bypassing the opportunity to familiarize themselves with the target can lead to various problems, including information asymmetry, overpayment, and integration issues. From the perspective of M&A, establishing an alliance with the target before acquisition can be a valuable strategy to gather essential information and resources, ultimately facilitating a smoother M&A process. Similarly, in the context of strategic alliances, it is crucial for firms to recognize that within their alliance relationships lies the potential to transition to M&A, and they should be prepared to seize this opportunity.

This study is not without limitations. First, although we have made significant efforts to explore the factors influencing the alliance-to-M&A transformation, our analysis primarily relies on a database, which has certain limitations. For instance, we lack more specific firm-level information, including details on the specific information and resources acquired during alliances, the knowledge exchange between partners, the level of closeness in a particular alliance, and other granular aspects. Future research could incorporate qualitative methods to delve deeper into the critical factors affecting the alliance-to-M&A transformation, using more specific company-level information. Second, our study introduces certain country-level variables in the control variables and provides an initial exploration of the impact of country and culture-related factors on the alliance-to-M&A transformation. Our results suggest that cultural differences and variations in the development levels of partners' home countries may indeed influence the likelihood of strategic alliances evolving into M&A. These variables are closely related to familiarity and could be further developed to establish a stronger alignment

between strategy and M&A research, leading to a more comprehensive understanding of the partner-to-target transition mechanism.

Conclusion and Future directions

This thesis investigates international market selection within a firm's internationalization process and the relationship between two important but long-standing regarded as optional strategic growth methods – strategic alliances and M&As. Overall, this thesis makes a substantial contribution to the field of international business and strategy.

To be more specific, the first study tackles a common limitation of the International Market Selection (IMS) mode. It introduces a dynamic, multi-dimensional IMS model that integrates entry mode and target market decisions, enhancing adaptability and optimization. This approach departs from traditional IMS models that suggest deciding on the entry modes after target market selection. Instead, it incorporates entry mode considerations during market selection. The concurrent decision-making process offers valuable insights into optimizing IMS by taking into account the dynamics of entry mode attractiveness in diverse markets, thereby refining firms' strategies for global expansion. This study underlines two important theoretical contributions to the fields of International Market Selection and corporate internationalization literature. First, it addresses the crucial issue in IMS research by bridging the two fundamental yet traditionally isolated aspects of internationalization: international market selection and entry modes. Neglecting entry modes in IMS can impede firms from conducting appropriate country scanning and selection. Therefore, this study provides a flexible and dynamic IMS model to address this issue. Second, this IMS model aligns with the trend towards a more open and adaptable international business environment, as suggested by Surdu et al. (2021). While traditional IMS models provide valuable guidance to firms in their internationalization process, it is essential to recognize the static nature and inability of many traditional IMS models to keep pace with the ever-changing international business environment. This novel IMS model also holds significant managerial implications. It offers

firms a proactive approach, considering entry modes during market selection. By aligning market selection with the suitability of entry modes, firms can tailor their global expansion strategies and optimize their international ventures.

In line with the IMS model, once a target market has been selected, the firm faces the pivotal decision of expanding internationally. For instance, when considering foreign direct investment, such as M&As, a crucial consideration emerges: the availability of a suitable target firm in the host market for acquisition. This choice involves evaluating whether to establish an alliance with the potential target to leverage value from the prior alliances or proceed with a direct acquisition. Consequently, the second and third studies undertake a comprehensive analysis, delving into the interconnection between these two strategic growth methods, which have conventionally been viewed as optional choices (Yang et al., 2010).

Previous research indicates that pre-acquisition alliances positively influence post-acquisition performance (e.g., Al-Laham et al., 2010; Porrini, 2004; Zaheer et al., 2010). The second study further investigate in the relationship between alliances and M&As, uncovering a more nuanced than previously suggested. The performance-enhancing effect of the previous alliance with the target is contingent on the level of cultural and market familiarity with the partner's context. Not all pre-acquisition alliances yield the same effect on acquisition performance. Specifically, those formed in a more familiar context, where formal organizational communication is complemented by deeper personal and emotional connections, contribute more significantly to post-acquisition performance. This study shed light on how learning in pre-acquisition alliances should be conceptualized. While different firms theoretically have more potential to learn from each other, learning is restricted in the unfamiliar context and may not occur at all. Therefore, this study drawing from psychological contract theory (Rousseau, 1990, 1995), and underscores the importance of relational learning

in cultivating shared beliefs and mutual understandings within alliances, ultimately benefiting post-acquisition performance.

The third study explores the relationship between strategic alliances and M&As, but it shifts its attention to the factors that either facilitate or impede the transition from an alliance to an M&A. Through a more in-depth investigation of the role of familiarity in this dynamic, the paper reveals that alliances established in a more familiar context are more likely to evolve into an M&A arrangement once the alliance concludes. Familiarity, in this context, is defined by multiple alliances that signify familiarity through ongoing interactions, experienced acquirers who demonstrate familiarity with the M&A environment, and industry relatedness serving as an indicator of industrial familiarity. This study also sheds light on the varying significance of time efficiency across different industries. In high-tech industries, time efficiency is crucial. Consequently, high-tech firms are less inclined to acquire their alliance partners and, instead, they prefer to seize direct acquisition opportunities as they arise. The study contributes to a better understanding of the complex and longitudinal mechanism governing the transition from a partner in an alliance to a target in an M&A. Moreover, it offers significant managerial implications. A lack of understanding regarding the link between alliances and M&As can cause a company to overlook potential opportunities for smoother and better-integrated acquisition deals. Therefore, it is essential for firms to comprehend the benefits that can be derived from previous alliances and the factors influencing the transition from alliance to M&A. This knowledge enables them to make more informed decisions regarding acquisitions.

Altogether, the three studies offer valuable insights into international market selection and strategic growth methods, such as strategic alliances and M&As. This thesis aimed to bridge the gap between the significant yet somewhat isolated aspects within internationalization

literature. It aimed to facilitate a dialogue and integration between these essential areas of knowledge and contribute to a better understanding of firm internationalization as a whole.

However, it is worth noting that the three empirical studies predominantly employ quantitative methods, including indexes, rankings, linear and logistic regression models, matching strategies, and machine learning. Given the complexity of the alliance and M&A relationship, quantitative methods may have limitations in fully comprehending this intricate and complex association. For instance, the interactions between the two companies and the specifics of what alliance partners 'learn from' and 'learn about' each other remain unclear. Therefore, further studies should consider incorporating qualitative methods, such as in-depth interviews, documentation analysis, and the development of scales to gain a deeper understanding of this mechanism. Specifically, one approach is to conduct in-depth interviews with companies that have acquired their alliance partners and companies currently in alliance relationships. This would aid in better understanding the benefits gained during the alliance period, with a focus on more intangible aspects such as trust, commitment, common ground, and psychological contracts. This research can further explore when and under what circumstances an alliance is likely to transition to M&A. Another direction could involve investigating the post-acquisition integration phase by interviewing companies that have acquired their alliance partners and companies that chose direct acquisitions without prior alliance relationships. Comparing these two groups could provide insights into how a previous alliance contributes to the post-integration phase, including talent retention and management, organizational and national cultural integration, and the speed of integration. Furthermore, a combination of qualitative and quantitative methods can be applied to gain a more comprehensive understanding of the alliance and M&A relationship.

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