RESOURCE REDEPLOYMENT AND ACQUISITION PERFORMANCE IN
DOMESTIC AND CROSS-BORDER ACQUISITIONS

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Abstract

Research in the strategy and international business literatures shows that firms often undertake acquisitions in order to exchange firm-specific resources. The core arguments arise from theories of market failures, where market failures can stem from potential opportunism or from coordination difficulties. However, empirical research on cross-border and domestic acquisitions has not been able to reach a consensus regarding post-acquisition strategy and performance in the two types of cases. We show that the post-acquisition performance of an acquisition in both domestic and cross-border contexts varies with the extent of post-acquisition redeployment, which in turn depends on two factors, including the degree of asymmetry in the resource profiles of the firms and the extent of context-specificity of these resources. We discuss differences in research emphases that have traditionally marked research concerning acquisitions in international business literature, which has emphasized cross-border acquisitions, and the strategy literature, which has focused on domestic acquisitions, and then identify opportunities for conceptual cross-fertilization between the literatures. The data draw from a detailed multinational survey with 251 acquisitions during the 1988-1992 period. The results generally support our predictions for domestic and cross-border acquisitions.
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This paper studies post-acquisition resource redeployment between target and acquiring businesses following domestic and cross-border acquisitions. We study the causes of redeployment and how redeployment then affects business performance. Our central premise draws on international business theory plus mergers and acquisitions strategy research concerning resource redeployment. Cross-border acquisitions have been a long-standing research issue in the international business literature. Since the seminal work of Hymer (1976/1960) and Buckley & Casson (1976), the international business literature has viewed transfer of tacit resources as an incentive for cross-border acquisitions, focusing on market failures that stem from both potential opportunism and knowledge limits. In parallel, the strategy literature, which empirically has emphasized domestic acquisitions, has begun to argue that acquisitions provide means by which firms can acquire tacit capabilities, with the incentives again arising from opportunism and knowledge-based market failures (Wernerfelt, 1984; Williamson, 1985; Seth, 1990). Together, the strategy and international business research traditions offer substantial insights concerning post-acquisition behavior and performance.

Acquisition research often under-emphasizes opportunities for cross-fertilization between the strategy and international business literature. Strategy research on acquisitions is based on the potential for synergies arising out of overlaps and complementarities between the resources of the acquiring and acquired firms (Wernerfelt, 1984; Barney, 1986), while international business research has stressed the potential and difficulties of moving strategic assets across geographic borders (Dunning, 1990; Kogut, 1991). We believe that in combination these paradigms create a natural opportunity to study the antecedents and effects of resource redeployment between firms in cross-border relative to domestic acquisitions. Departing from the practice of using industry and country level data in such analyses, we develop firm level measures of resource asymmetry, context specificity, resource redeployment, and performance. Our basic argument is that both literatures draw on similar conceptual arguments, so that we should expect similar causes of post-acquisition strategy and similar sources of value creation in domestic and cross-border acquisitions. Following previous arguments, we posit that resource asymmetry and contextual
similarity influence post-acquisition resource redeployment, which in turn influences acquisition performance. At the same time, though, the levels of the key factors that influence post-acquisition redeployment, such as context specificity, may tend to vary between domestic and cross-border acquisitions.

Assessing acquisition behavior and performance is important for both conceptual and managerial understanding of business practice, as domestic and cross-border acquisitions become increasingly common in economies throughout the world. Acquisition activity has increased at almost exponential rates throughout the past ten years, both within countries and across borders. Strikingly, the number and value of cross-border acquisitions have increased multi-fold in absolute terms. Moreover, cross-border acquisitions have also increased as a fraction of the total acquisitions and as a fraction of the total foreign direct investment transactions. Cross-border acquisitions now form the largest group of transactions in all foreign direct investment categories, ahead of joint ventures and greenfield investments, and comprise a sizeable component of all acquisition transactions. For example, Anand and Kogut (1997) report that acquisitions formed the largest group among the direct investments made in the United States by firms from Japan, Germany, and Great Britain between 1974 and 1991.

The few studies that have compared outcomes of domestic and cross-border acquisitions have produced ambiguous conclusions. Some conceptual studies argue that cross-border acquisitions should outperform domestic ones on average or, at least, that cross-border acquisitions provide additional sources of value creation by drawing on national differences and diverse environments. However, empirical studies provide mixed results concerning whether cross-border acquisitions create greater value than domestic acquisitions.

Several reasons underlie the lack of convergence concerning the comparative value of domestic and cross-border acquisitions, as we will discuss in the text. We believe that the geographic origin of the merging firms is not the primary source of value creation. Instead, more fundamental factors such as initial resource asymmetry of the merging firms and initial environmental similarity are likely to influence post-acquisition resource redeployment, beyond considerations of a geographic border. Second, the methodology of the studies, most often based on financial return data, limits their ability to actually measure post-acquisition resource
redeployment and performance. At a theoretical level, we argue that the strategy literature and the international business literature draw on the same fundamental conceptual logic to account for the antecedents and outcome of post-acquisition resource redeployment.

The paper proceeds as follows. We briefly review research in the strategy and international business literatures concerning post-acquisition redeployment and performance. We then develop hypotheses concerning resource redeployment and performance of domestic and cross-border acquisitions. We state the predictions in terms of the over-arching concepts of resources and performance, and then test the predictions with a multi-dimensional set of resource and performance measures. Our data comes from a detailed survey of managers involved in 74 domestic acquisitions and 177 cross-border horizontal acquisitions initiated by North American and European Union manufacturing firms from 1988 through 1992.

ACQUISITIONS IN DOMESTIC AND CROSS-BORDER RESEARCH

We first summarize research in the strategy and international business literatures concerning post-acquisition redeployment and performance. Acquisitions have been a long-standing research issue in the economics, finance and strategy literatures. The dominant conclusions in this literature are based on financial event studies, most often with U.S. samples. On average, acquisitions create value, but the financial economics literature suggests that target firm shareholders often appropriate most of the value (Jensen and Ruback, 1983; Bradley, Desai, and Kim, 1988; Agrawal, Jaffe, and Mandelkar, 1992). The poor average returns to acquirer shareholders arise due to high premiums paid for the potential contribution of the target, although there is a high variance among the performance outcomes for acquiring firms. Several explanations have been proposed to explain the variance in stock returns, which include market power as well as opportunities for resource redeployment between acquiring and acquired units (Karnani and Wernerfelt, 1985; Grant, 1987; Scherer and Ross, 1990). Market power has received little empirical support as a source of value creation (Eckbo, 1983; Stillman, 1983).

1 Several prior studies have used this data to examine other questions. Capron, Dussauge, and Mitchell (1998) study the impact of individual dimensions of resource asymmetry on resource redeployment. Capron (1999) studies the effect of resource redeployment on acquisition performance. Capron, Mitchell, and Swaminathan (2000) study the causes of post-acquisition asset sell-off. No prior study using this data has undertaken detailed comparison of domestic and cross-border acquisitions.
Instead, the most accepted conclusion concerning value creation is based on the potential for post-acquisition recombination of firm resources and assets (see Capron, 1999).

In addition to the domestic acquisitions studies, a substantial body of research has focused on the performance of cross-border acquisitions. The cross-border research has produced no consensus. Potential value creation in cross-border acquisitions arises at country and firm levels of analyses. Several prior studies directly and indirectly compare the performance of domestic and cross-border acquisitions, although the results are ambiguous. In a financial event study of 276 cases in which U.S. firms acquired foreign businesses, Markides and Ittner (1994) find that the acquirers tend to gain value, counter to the dominant conclusion in the domestic acquisitions literature that acquiring firm shareholder value usually declines or, at best, remains unchanged. Eddy and Seifert (1984) and Dewenter (1995), by contrast, find little difference between the returns of acquirers that purchase foreign firms and those that purchase domestic firms. In studying the acquisition of U.S. firms, Swenson (1993) reports that target shareholders benefit more when a foreign company takes over the firm than when the acquirer is a U.S. firm. Dewenter (1995), though, finds no significant difference in the mean level of target shareholder wealth gains in domestic versus foreign acquisitions. Finally, Seth, Song and Pettit (1998) find that cross-border acquisitions are associated with gains to targets and acquirers that are quite similar in value to those in the domestic case. The lack of consensus among the studies leaves no conclusion regarding whether domestic and cross-border acquisitions arise from similar or different causes and have similar or different influences on performance.

We now turn to the examination of the specific country and firm level bases of value creation, again finding that there is no consensus concerning whether cross-border acquisitions will tend to outperform domestic acquisitions. Country-level factors include tax benefits, imperfections in capital markets, exchange rate fluctuations, international diversification, and variation in sectoral distribution across countries, but the results are often ambiguous. Manzon, Sharp and Travlos (1994), and Mathur, Rangan, Chhachhi and Sundaram (1994) find that abnormal returns correlate positively with differences in international tax status of acquiring firms, for example, while, conversely, Markides and Ittner (1994) find the effect of tax regulation to have a negative impact on shareholder value. Similar divergence arises in studies of capital
market imperfections, where Adler and Dumas (1975) demonstrate that the multinational enterprise’s incentive for cross-border acquisition depends on the degree of competitiveness in the foreign capital market, but Markides and Oyon (1996) find no significant relationships between the characteristics of the market for corporate control of a country and acquisition value creation. In exchange rate research, Dewenter (1995) finds that the control premiums show no significant exchange rate elasticity, while Harris and Ravenscraft (1991) and Swenson (1993) find the opposite results. International diversification research has also produced ambiguous results. Agmon and Lessard (1977, 1981), Fatemi (1984), and Yang, Wansley and Lane (1985) find empirical evidence to support the positive effects of international corporate diversification, while Brewer (1981), Eddy and Seifert (1984) and Senchack and Beedles (1980) do not find such support. Overall, no consensus concerning the superior potential of cross-border acquisitions for creating value arises among country-level studies.

Furthermore, country-level factors do not act independently of firm-level factors. Our basic argument is that acquirers undertake firm-level post-acquisition activity in order to realize the benefits of advantages that arise at the country level of analysis. In this view, firm-level factors tend to have the strongest impact on acquisition value. Therefore, variation in studies of country level factors may arise if firms in the studies act differently. As we note below, several studies suggest preliminary evidence that cross-border acquisitions can create value by allowing redeployment of resources between targets and acquirers. Hence, we need firm-level studies to assess the potential for resource redeployment and the sources of value-creation.

**PREDICTIONS**

**Antecedents Of Redeployment: Resource Asymmetry And Environmental Similarity**

In this section, we argue that resource redeployment in both domestic and cross-border acquisitions results from the initial resource asymmetry of the merging firms and the similarity of the environment in which the merging firms operate. We first review relevant discussions from the strategy and international business literatures concerning resource asymmetry. We then turn to research in these two sets of literature that has considered how environmental similarity might influence resource redeployment.
**Resource asymmetry**

We expect acquirers that are strong on a particular resource dimension will gain most by redeploying the resource to a target, while targets that are weaker than acquirers on the resource dimension will benefit most from receiving the resource. In parallel, firms will tend to redeploy resources from targets to acquirers on dimensions where targets have relative strength. This argument arises from both the domestic and international strategy literatures.

The strategy literature has long recognized that the resource redeployment process can work in either direction, from acquirer to target or from target to acquirer (Penrose, 1959). Ravenscraft and Scherer (1987) show that acquisitions may be used to infuse superior management capabilities into the target firm. While the literature has long noted the motive to restructure poorly run firms through superior management (Jensen, 1989), in practice most acquisition targets tend to be healthy firms that can contribute to the resources of the acquiring firm (Ravenscraft and Scherer, 1987; Scherer and Ross, 1990). For example, gaining complementarities and economies in marketing and R&D capabilities offers important incentives for acquisitions (Kitching, 1967; Chatterjee and Wernerfelt, 1991). Several studies suggest that resource asymmetry will lead to redeployment (e.g., Singh and Montgomery, 1987; Lubatkin and O’Neill, 1988; Prahalad and Hamel, 1990; Bowman & Singh, 1993; Hitt, Hoskisson, & Ireland, 1994; Lei & Hitt, 1995; Hitt, Hoskisson, Johnson, & Moesel, 1996; Capron, Dussauge, & Mitchell, 1998).

In the international business literature, the flow of resources from acquirer to target corresponds to the traditional view of multinational corporations, in which resources flow from home headquarters to foreign subsidiaries (Gupta & Govindarajan, 1991). Since Hymer’s (1960) and Buckley and Casson’s (1976) early work, the FDI literature traditionally focused on the exploitation of existing firm advantages in foreign markets. More recently, the international business literature has begun to consider a reverse argument. Since the publication of Cantwell’s (1989) thesis, recent literature in the field has hypothesized that industries where host countries have advantages in resident technology attract foreign investment (Kogut and Chang 1991). While the traditional focus takes the form of a sectoral “push” of the home country’s technological advantages, the more recent argument posits a geographical “pull” of the host
country’s skills (Anand & Kogut, 1997). Dunning (1990) argues that the main country specific locational determinants have shifted to reflect the innovatory and entrepreneurial dynamism of the recipient economy. The targeted assets of the recipient country enable the MNE to sustain and add to their competitive advantages. This flow of resources from host country to home country is becoming known as asset-seeking foreign direct investment or reverse-internalization (Eun, Kolodny, and Scheraga, 1996).

Localized technological and marketing capabilities most frequently arise as key resources in studies of cross-border acquisitions. Eun, Kolodny, and Scheraga (1996) and Harris and Ravenscraft (1991) emphasize the role of technological assets of acquiring and target firms. Firms with few technological capabilities tend to obtain technology by acquiring innovative firms (Granstrand and Sjolander, 1990). In addition to technological capabilities, marketing expertise, such as brand capital and distribution access, is a critical resource in accessing new markets. Marketing expertise often involves substantial intangible know-how that it is risky and difficult to develop independently or to obtain in arms length transactions. While the marketing know-how is an intangible public good within the firm, the foreign brands may be difficult to exploit in new markets (Caves and Mehra, 1986). Similarly, while the physical assets in distribution (e.g. warehouses, sales force personnel) are easy to acquire in unbundled form, the intangible know-how may be quite difficult to develop in new markets. Post-acquisition redeployment will tend to be greatest when either the target or acquiring firm have particularly strong resources. Therefore, in both domestic and cross-border acquisitions, the opportunity for resource redeployment is contingent on the asymmetry between resource profiles of the two firm.

Proposition 1: The greater the asymmetry between the resource strength of the target and acquiring businesses, the greater the redeployment of resources from the stronger to the weaker business in both domestic and cross-border acquisitions.

Environmental similarity

As we mentioned earlier, we expect resource redeployment to take place not only in the presence of resource asymmetry, but also if the targeted resources fit the environment of the recipient firm. More generally, resources that exist in a particular competitive context tend to involve context-specific routines. The context-specificity of a resource is the degree to which the
resource has value in a particular competitive environment compared to other environments. The context-specificity is more likely to lead to value creation when firms redeploy resources to similar environments, thereby increasing the propensity for redeployment.

Many resources are embedded within both a specific firm’s internal activities and an external market context. A high degree of context-specificity of a resource can create disincentive for resource redeployment because the resource will lose part of its value by being redeployed in a new context, even if the firm retains ownership of the resource (Kogut and Zander, 1996). In other words, the more a resource has value primarily in a particular competitive context, the less likely that a firm will redeploy that resource into a different competitive context (Madhok, 1996).

Many streams of research argue that there is an ongoing interaction between a firm’s resources and its environment. Daft and Weick (1984) assume that organizations are open social systems that process information from the environment, arguing that the environment actively intrudes into firms and, conversely, firms can intrude into the environment. Aldrich and Herker (1977) argue that many of a firm’s people and resources span the boundary with the external environment. Cohen, et al. (1996) argue that firms execute organizational routines that they have learned in response to selective pressures for repeated performance in particular environmental contexts. Granovetter (1985) argues that firms are embedded in social contexts, while Tyre and von Hippel (1997) suggest that knowledge exists in the context of particular situations. A common element of these arguments is that knowledge is highly context-specific.

For our purposes, the key implication of these arguments is that, in similar environmental settings, recipient firms can absorb more resources and donor firms can transfer the resources more effectively. The greater absorptive capacity arises because the target and acquirer share common knowledge and industry experiences (Hambrick, 1982; Huff, 1982), common repertoires of strategies (Spender, 1987), and collective cognitive models and beliefs that shape interorganizational relationships (Porac, Thomas, Wilson, Paton and Kanfer, 1995). Conversely, in different environmental settings, firms must manage the process of decontextualization and recontextualization of the redeployed resources (Doz and Santos, 1997). Brannen, Liker and Fruin (1998) refer to the notion of recontextualization as the process of realignment between
those transferring and those using resources. Many technical resources draw from local innovation systems and must adjust to local products and standards (Nelson, 1993). Misalignment between technology and new environments generally occurs because the internal systems of technology decouple from the environment. Marketing resources such as distribution systems and brand names also tend to develop over long periods in the context of the competitive conditions facing the firm and to embody tacit knowledge about the competitive environment (Dierickx and Cool, 1989; Hennart and Park, 1993). Unsuccessful recontextualization will result in a lost opportunity for organizational learning and strategic realignment (Brannen, Liker, and Fruin, 1998).

Context-specificity may be particularly strong in cross-border acquisitions, because the home-based and foreign businesses operate in different locations and have different understandings of how to conduct business. Further, to add to the international dimension, national origins often imprint organizational characteristics on businesses and these characteristics diffuse internationally through the activities of multinational business (Kogut, 1991; Barkema, Bell, & Pennings, 1996; Doz & Santos, 1997). The literature on national differences in the evolution of firms has noted that country specific institutions have a remarkably long-lasting effect on the organizations within the firms of that country (Hamilton and Biggart, 1988; Guillen, 1994). Ever since Stinchcombe (1965), the relationship between an organization and its founding environment has been referred to as imprinting. Firms from different countries will tend to reflect the differences between the environments under which they were created. While, previously we acknowledged the greater potential for resource redeployment due to greater asymmetries between the resource profiles, we also expect a greater difficulty in transforming path dependent and sticky routines of the target foreign firm post-acquisition. At the same time, though, the intra-corporate resource flow research argues that managers must balance the scale benefits of resource sharing with costs that stem from coordination activities and reduced flexibility (Gupta and Govindarajan, 1986: 698).

Even though the firm is likely to face greater differences in contexts in cross-border acquisitions than in domestic acquisitions, there is no a priori reason to posit a different relationship between context-specificity and redeployment in these two cases. We expect parallel
results for the influence of environmental similarity on resource redeployment in domestic and cross-border acquisitions.

Proposition 2a: The more similar the competitive environment of the target and the acquirer, the greater the redeployment of resources both to and from targets in both domestic and cross-border acquisitions.

Proposition 2b: There will be less similarity between the competitive environments of the acquiring and target firms in cross-border acquisitions than domestic acquisitions.

Post Acquisition Performance

We next outline two views in the strategy literature and two views in the international business literature that have studied acquisition performance. These views provide parallel firm-level arguments.

Two sets of studies in the strategy literature, the knowledge-based perspective and transaction cost economic theory, provide insights concerning acquisition performance. The knowledge-based perspective, rooted in behavioral and evolutionary firm theories (Penrose, 1959; Cyert & March, 1963; Nelson & Winter, 1982; Wernerfelt, 1984), argues that market failures in redeploying intangible resources arise from firm-specific knowledge that would cause coordination difficulties in arms length relationships (Conner & Prahalad, 1996). This theory argues that firms can undertake internal redeployment of tacit resources more easily than they could transfer resources across firms through market mechanisms. This view emphasizes acquisitions as a means for easing resource redeployment by providing greater exposure to information and more comprehensive packages of supporting skills, thereby helping acquirers learn how to use resources in new ways (Nelson & Winter, 1982; Haspeslagh & Jemison, 1991). Chatterjee and Wernerfelt (1991) argue that the ability to acquire intangible resources such as R&D and marketing capabilities is a particularly strong incentive for acquisitions. Acquisitions make it possible for firms to undertake ongoing interactions needed to understand new resources through mechanisms such as cross posting of staff, corporate task forces, and joint management of shared functions (Singh and Zollo, 1997). Through acquisitions, firms both acquire unfamiliar new resources and learn how to use their existing intangible resources in new organizational settings and competitive conditions (Penrose, 1959: 126; Mitchell, 1994).
In contrast with knowledge-based arguments, transaction costs economic theory emphasizes market failures that arise from bounded rationality and potential opportunistic behavior. The view argues that acquisitions are a means for firms to redeploy transaction specific assets within firm boundaries in situations where contracting would be risky and would create substantial governance costs (Williamson, 1975). In the face of potential opportunism, markets for intangible resources are imperfect due to immobility, information asymmetries, causal ambiguity, and monopoly. These imperfections complicate the pricing and transfer of resources, thus increasing the associated costs of an arms length transaction with an independent partner. Associated costs might include recognition, disclosure, team organization, monitoring, and dissipation costs (Teece, 1982). Unlike arms length exchanges, the particular institutional capabilities of firms protect resource value from appropriation and imitation more effectively than the market by aligning incentives among the contracting parties (Teece, 1986; Chi, 1994).

Similarly, in the international business literature on cross-border acquisitions, two research streams have traditionally emphasized the redeployment of firm specific ownership advantages to and from acquirers. The body of literature known as internalization theory stresses incentives to redeploy and retain ownership of the acquirer’s existing resources. In parallel, evolutionary perspectives on international business stress that targets provide a knowledgeable location in which acquirers can use their resources.

With its intellectual roots in institutional economics (Coase, 1937), internalization theory argues that firms have strong incentives to expand internationally through foreign direct investment rather than through arms length contracts with foreign firms (e.g., Hymer, 1960; Caves, 1971, 1974, 1996; Buckley and Casson, 1976; Dunning, 1977; Teece, 1977; Rugman, 1981; Casson, 1987). Two conditions underlie the internalization incentives, an ownership advantage condition and a market failure condition. The ownership advantage condition of internalization theory arises from the assumption that firms undertake foreign direct investment in order to realize economic rents that derive from the possession of intangible resources. Such resources have public goods characteristics and can yield economic rents stemming from increasing returns to scale (Dunning, 1988). The market failure condition of internalization theory takes its intellectual roots in transaction cost economics and builds on the notion of
market failure stemming from bounded rationality and potential opportunistic behavior. Imperfections in markets for intangible resources arise due to immobilities, information asymmetries and associated moral hazards, causal ambiguity, and monopoly (Caves, 1971; Hymer, 1976). The market imperfections create complications in the pricing and transfer of resources and consequently increase the associated risks of undertaking arms length contracts with independent partners (Buckley & Casson, 1976; Teece, 1982; Hennart, 1982; Chi, 1994).

Contractual risks for intangible resources arise in the international context for many reasons. Poor knowledge of foreign competitive environments, lack of information on the competencies and the reputation of potential foreign partners, cultural misunderstandings, legal differences between countries in defining and enforcing property rights, and difficulties in monitoring foreign partners’ behavior all contribute to increasing the level of information asymmetry and uncertainty surrounding transactions between firms (Hisey and Caves, 1985). The high level of uncertainty generates additional market failures for trading resources by increasing the costs of writing and enforcing contracts, the risk of deterioration in the quality of jointly operated services with the host country partner or licensee, and the risk of dissipating proprietary knowledge based on a lower predictability of the foreign partner’s behavior (Caves, 1971; Hill, Hwang & Kim, 1990). Foreign direct investment provides a means of exploiting rent-yielding intangible resources in new locations by avoiding the costs and spillovers associated with transacting with a partner (Rugman, 1980; Grubaugh, 1987).

Similar to internalization theory, evolutionary perspectives on international business suggest that the desire to exchange intangible resources motivates many cross-border acquisitions (Dunning, 1990; Kogut & Zander, 1995). As was the case with the different perspectives in the strategy literature, though, the internalization and evolutionary views have different causal assumptions. Paralleling knowledge-based perspective in the strategy literature (Winter, 1987), the evolutionary branch of international business research reveals that firms expand across borders in response to the specific characteristics of knowledge, such as tacitness, internal embeddedness, lack of codifiability, and difficulty in its transfer using market mechanisms (Kogut & Zander, 1993; Polanyi, 1966). Organizations provide superior mechanisms for transferring such knowledge-based resources across borders because they act as social
In practice, both the internalization and evolutionary arguments will influence foreign direct investment, because firms face the joint needs of learning about the environments in which they invest and protecting the value of their investment. Recent studies suggest that both internalization and evolutionary incentives influence the incidence and success of international expansion. Penner-Hahn (1998) shows that foreign firms’ R&D redeployment increases with both the stock of the firms’ knowledge and their understanding of the foreign environment. Similarly, Shaver, Mitchell, & Yeung (1997) show that foreign direct investment survival increases with both intangibles and local fit.

Consistent with the internalization and evolutionary arguments in the international literature, as well as the knowledge-based and transaction cost arguments in the strategy literature, several empirical studies suggest that acquisitions create value by allowing the redeployment of resources to or from the target. In the strategy literature, Seth (1990) and Capron (1999) suggest that greater resource redeployment will lead to greater performance. Cross-border acquisitions, meanwhile, commonly involve target firms with strong marketing and technological resources (Barkema & Vermeulen, 1998; Granstrand & Sjolander, 1990; Hoskisson & Hitt, 1990; Harris & Ravenscraft, 1991; Eun, Kolodny, & Scheraga, 1996). Morck and Yeung (1992) show that acquiring firms with information-based assets experience significant positive stock price reactions upon announcing a foreign acquisition. Their results are highly significant for technological resources, but weaker for marketing resources, which may arise due to greater context-specificity of the marketing resources. Markides and Ittner (1994) suggest that prior international experience generates gains to acquirers, indicating that experienced acquirers may be better able to integrate assets and manage their acquisitions efficiently. Similarly, other studies (Horst, 1974; Harris & Ravenscraft, 1991; Swenson, 1993) suggest that possession of sales forces and other downstream assets contribute to acquisition performance. Recent studies have also shown that redeployment from the target could also be an important source of value creation (Anand and Kogut, 1997). Like internalization, the causal logic for this ‘reverse-internalization’ stems from ownership advantages and opportunism-based market failures. Either the acquirer or the target, or both firms, can benefit from an acquisition when the acquirer possesses intangible
resources that would have value when combined with the target’s resources (Granstand & Sjölander, 1990; Morck & Yeung, 1992; Mitchell, 1994).

Thus, the logic of the main theories of international business closely parallels that of the theories of domestic strategy research. We expect resource redeployment to be common and to be an important source of value creation following all acquisitions.

Proposition 3: The greater the post-acquisition resource redeployment, the greater the performance of both domestic and cross-border acquisitions.

The preceding sections argue that the levels of resource asymmetry and context-specificity influence resource redeployment to and from target businesses and, in turn, redeployment will influence acquisition performance in both domestic and cross-border contexts. In both cases, the primary causal benefit arises from market failures in exchanging discrete resources, where the market failures arise from both incomplete knowledge and potential opportunism. The perspectives generate equivalent predictions concerning the impact of post-acquisition resource redeployment on target and acquirer performance. To date, though, little research uses the strategy and international business perspectives together in identifying the extent and impact of post-acquisition resource redeployment. Our research will help identify firm-specific factors that contribute to post-acquisition resource redeployment and will help create a more unified view of acquisitions. By developing our arguments from both sets of literatures and testing the predictions with detailed firm level data, we believe that we add to the theoretical base of acquisitions research.

RESEARCH DESIGN

Survey Process

The use of a survey to account for post-acquisition resource redeployment is an important difference between this study and several previous studies based on secondary data. These studies have revealed many important relationships between the pre-acquisition characteristics of the merging firms’ resource endowment (e.g., advertising or R&D expense ratio) and acquisition performance. Prior analysis has identified conditions that may eventually lead to a process of resource redeployment after the acquisition between the merging firms, but they do not explicitly capture the ability of those firms to effectively redeploy their resources. Most large-sample
research concerning acquisitions focuses on publicly-traded U.S. firms (e.g., Haunschild, 1993, 1994), often emphasizing larger firms and acquisitions (e.g., Davis and Stout, 1992; Cannella & Hambrick, 1993; Hayward and Hambrick, 1993). This research typically relies on publicly available financial and structural data, and lacks fine-grained information concerning post-acquisition behavior because determining the extent of resource redeployment cannot be easily identified from the firm’s public announcements. Acquisitions research that includes archival information concerning non-U.S. firms and small private U.S. firms also typically lacks detailed internal information (e.g., Freeman, Carroll, & Hannan, 1983; Mitchell, 1994). To overcome these limits, we surveyed the managers of the acquiring firms. Survey data have been used previously in the strategic management literature to gather data on firms’ attributes and internal processes (Hunt, 1990; Datta, 1991; Very, Lubatkin, Calori and Veiga, 1997). Our survey methodology provides extensive information concerning post-acquisition behavior despite the substantial number and wide variety of firms.


The data collection process proceeded in four phases. First, we developed measurement scales by reviewing relevant literature and by completing 25 on site-interviews with CEOs from large firms, academics and consultants. We pre-tested these scales with a group of academics and consultants. Next, a bilingual researcher pre-tested the preliminary versions of the resulting questionnaires (in both English and French) with senior executives of large U.S. and European firms attending executive education programs in two major business schools located in the United States and in France. These pre-tests led to the revision of several items to improve their
clarity as well as the addition of several new items identified during the interviews. The third stage consisted of on-site interviews with CEOs or executives in charge of their acquisition programs in 10 large firms, resulting in the final versions of the questionnaire. In the final stage, we mailed the survey to the acquiring companies included in the sampling frame described above. We addressed the surveys to the chief executives of the business units that undertook the acquisition. In the cover letter, we requested that the survey be completed either by the CEO or by a senior executive with overall responsibility for the acquisition case studied. Following Dillman (1978), we mailed two follow-up letters and one replacement questionnaire following the initial mailing.

We used a single informant at the acquirer for information concerning each acquisition. Although the use of multiple respondents would have reduced concerns about potential response biases, respondents had to be knowledgeable about the firm and its competitive environment (Campbell, 1955), as well as the consolidation processes following the acquisition. In a large sample study such as ours, identifying and obtaining responses from multiple well-informed respondents is extremely problematic. The key methodological solution in using a single respondent approach is to find the most appropriate respondent (John and Reves, 1982). We qualified our respondents as individuals who held a CEO or equivalent position, or had been involved as senior managers of the acquisition process. We recognize that the survey records only the acquirers’ views of the acquisition. However, the managers from the acquiring firms tend to be the most knowledgeable about post-acquisition activities, owing to the high level of target CEO turnover following acquisitions (Walsh, 1988). From a practical standpoint, it is often next to impossible to track former executives of the target firm, since in many cases the target is no longer a separate entity.

From the initial sample, we mailed questionnaires to the 1,778 acquirers for whom we obtained addresses. We received a total of 273 completed questionnaires, representing a response rate of 15%. This response rate is comparable with the ones found in the most recent large-scale surveys involving executives (Gatignon, Robertson and Fein, 1997; Powell and Dent-Micallef, 1997; Robertson, et al., 1995). This response rate is reasonable given the dispersed setting of the survey in more than a dozen countries on two continents, the diversity of firms in the survey, the
senior positions of the respondents (CEO, president, executive chair, vice president of finance, and managing director), and the sensitivity of the information. Following a check to ensure that these cases all represented horizontal acquisitions, we eliminated 20 responses. The final data set includes 253 unique targets and 190 unique acquirers, with a smaller number of acquirers occurring because some firms acquired more than one target (and returned several questionnaires to analyze the different acquisition cases involved, answering one questionnaire for each case). Out of these 253 acquisitions, 177 are cross-border, 74 are domestic, and 2 could not be accurately identified.

We evaluated non-response biases by comparing the industries represented in our sample with the initial sample used. We found no differences in the industries represented. We also compared early respondents (first half) with late respondents (second half), following the Armstrong and Overton procedure (1977). We found no significant differences on key characteristics such as market conditions, acquisition motives or industry characteristics, suggesting that non-response bias should not be a problem. Overall, the data represent a wide range of industries, countries, firms, and scope of acquisition, as Table 1 reports.

********** Table 1 about here **********

Variables

To investigate the degree of resource redeployment associated with acquisitions, we constructed a typology of resources drawing from previous research (Hofer and Schendel, 1978; Barney; 1986; Morck and Yeung, 1992; Amit and Schoemaker, 1993; Chatterjee and Wernerfelt, 1991). From this research, we identify four intangible resources that indicate post-acquisition resource redeployment: R&D, manufacturing, marketing, and managerial resources. We measured the extent to which a firm redeployed its resources in each resource dimension using an ascending five-point scale. Measuring the actual extent of resource redeployment following the acquisition allows us to capture not only the quality of the resource fit (i.e., possession of resources and availability of opportunities to redeploy resources into new uses) but also the capability of the merging firms to implement the redeployment of their resources into each other’s businesses (Chatterjee, 1986). The Appendix reports the survey questions that we used to form the variables for this study. Table 2 reports summary statistics for the variables.
We used three sets of items to measure acquisition performance, including performance of the target, acquirer, and combined businesses. Each performance measure consists of five five-point items (with one for very negative impact and five for very positive impact): change in R&D capabilities, time to market, change in product cost, change in product quality, and change in product line scope.

We evaluated the impact of resource redeployment to target on target performance based on an aggregation of two measures. Where possible (in 70% of the cases), we used the performance response that reported target business post-acquisition performance. When this value was missing because the respondent could not disentangle the target and acquirer performance due to a high level of post-acquisition integration, we took the value of the performance of the consolidated business. We followed the same procedure to evaluate the impact of resource redeployment to acquirer on acquirer performance. We also tested other combinations, such as taking the mean or the maximum value of the three measures (target, acquirer, consolidated performance), finding no material differences across the different types of measure aggregation.

We measured the pre-acquisition resource profile by evaluating the relative strength of the target to the acquirer in R&D, manufacturing, marketing and managerial areas based on an ascending five-point scale. We used a set of three items to measure the similarity of the competitive environment between the target and the acquirer in terms of geographic market, type of customer, and direct rivals, again with ascending five-point scales. We took the mean value of these three items in order to provide an overall measure of environment similarity.

We also operationalized three control variables in order to address additional effects, including relative size of target to acquirer, market growth, and industry over-capacity. Prior research indicates that the potential to create value from an acquisition depends upon the relative size of the merging firms. Financial studies stress the estimation issue related to the effect of the relative size of the bidding and target firm. The acquisition of a relatively large target is likely to be a more important economic event for the acquirer than is the acquisition of a relatively small target (Asquith, Bruner and Mullins, 1983; Agrawal, Jaffe, and Mandelker 1992). Seth (1990)
also argues that acquisitions involving relatively large targets are more likely to generate operational synergies than those involving relatively small targets. We measured the relative sales of target to acquirer on a five-point scale (with one representing target sales less than 10% of acquirer sales and five representing target sales of more than 100%).

The two industry level factors of market growth and over-capacity might also influence acquisition performance. Acquisitions taking place in industries with low prospects for growth could lead to overall weaker performance than acquisitions in fast growing markets. Firms might also be more likely to redeploy resources in growing industries, rather than in stable or declining industries. We measured industry growth by taking the average of responses to questions concerning domestic market growth and international market growth, where each response had a five-point scale. Finally, the presence of industry over-capacity might also reduce acquisition performance. We measured the presence of over-capacity on a five-point scale (with one for under-capacity and five for over-capacity).

RESULTS

Descriptive Results

Tables 3 to 7 report descriptive relationships among the variables, including frequencies and t-test results for equality of means across the domestic and cross-border subsamples.

********** Table 3 to Table 7 about here **********

Resource redeployment and resource asymmetry.

Table 3 reports descriptive statistics for the extent of post-acquisition redeployment. The main conclusion is that resource redeployment to and from targets is a common outcome of both domestic and cross-border acquisitions. Furthermore, resource redeployment to and from targets exhibit a similar pattern along most resources categories in both domestic and cross-border acquisitions. Panel A of Table 3 reports the extent to which the acquirer redeployed resources to the target. The detailed results show that resource redeployment to targets is common in domestic and cross-border acquisitions and, moreover, at similar levels for most resources. The similarity holds even for the most common resource redeployment, which involves managerial resources. Whether the target is domestic or foreign, managers of the acquiring firm are usually willing to undertake management of the target (see Walsh, 1988; Hambrick & Cannella, 1993; Buono &
Bowditch, 1990; Chatterjee, Lubatkin, Schweiger & Weber, 1992). The main exception of similarity concerns innovation resources, for which redeployment to targets is more common in cross-border than domestic acquisitions. Panel B of Table 3 reports the extent to which firms redeploy resources to the acquirers. Again, we found a similar pattern of resource redeployment to acquirer between domestic and cross-border acquisitions. We note that redeployment from targets is less common than redeployment to targets, especially of managerial resources.

Table 7 reports t-tests on the mean differences of resource redeployment to and from targets in both contexts (See Panel I). With two exceptions, there are no significant mean differences between domestic and cross-border acquisitions. The two exceptions regard the redeployment of technical resources (innovation and manufacturing, which the correlation statistics in Table 3 show that firms often redeploy jointly) to targets, which is more common for domestic targets. Overall, the results in this section indicate that horizontal acquisitions, whether domestic or cross-border in scope, often provide opportunities for acquirers to use their resources within the target’s business or to tap resources from the target.

Table 4 reports pre-acquisition resource asymmetry between targets and acquirers. Once again, we observed similar results in domestic and cross-border acquisitions. Acquirers tend to take over targets that have substantial strengths. Panel II of Table 7 shows that there is no significant mean difference of resource asymmetry between domestic and cross-border acquisitions. These results suggest that firms can exploit resource complementarity and associated opportunities for redeployment in both domestic and cross-border acquisitions.

Environmental context of the target and acquirer

We now turn to the examination of the environmental context, for which Proposition 2b expected greater differences for the cross-border cases than for the domestic acquisitions. The results in Table 5 and Table 7 are consistent with Proposition 2b.

Table 5 shows that significant differences between the two groups exist for geographic market and the degree to which the merging firms were direct competitors. Fifty percent of the domestic targets in Table 5 serve similar geographic markets as their acquirers, while only 20% of the foreign targets serve similar markets as their acquirers. The mean difference is significant in Panel III of Table 7. As a result, foreign targets are less likely to be direct competitors of their
acquirers than domestic targets (respectively 26% versus 36% of the targets, which Table 7 shows to be a moderately significant difference). Overall, it is not surprising to observe that merging firms in domestic acquisitions are more likely to have overlapping markets and engage in direct competition than firms involved in foreign acquisitions. However, there is no significant difference in terms of customer type between the domestic and cross-border groups. A similarly proportion of targets (53% and 52% for the domestic and foreign targets, respectively) serve similar types of customers relative to their acquirer. These commonalties in customer profiles are likely to confer similar opportunities for resource redeployment in both contexts.

**Target and acquirer performance improvement**

Table 6 reports the post-acquisition performance. Once again, the main conclusion is that the overall effect of acquisition on performance is similar in domestic and cross-border acquisitions. In Table 6, the acquisitions tend to have a positive impact on the target in about fifty percent of the cases in the four resource categories. These results converge with those from previous studies based on accounting or stock market data (Porter, 1987; Ravenscraft and Scherer, 1987). Panel IV of Table 7 shows that there are no significant mean difference between domestic and cross-border acquisitions.

These results demonstrate striking similarities in resource redeployment and performance enhancement for domestic and cross-border acquisitions, coupled with differences in environmental similarity. We now turn to determining how resource asymmetry and environmental similarity affect redeployment and, in turn, how redeployment affects performance.

**Test of Propositions**

**Proposition 1: Effect of resource asymmetry on resource redeployment**

We first consider proposition 1, which argues that resource redeployment varies with the pre-acquisition degree of resource asymmetry of the target and acquiring firms. We calculate regression estimates of the relationship between resource redeployment and the relative strength of the targets and acquirers in both domestic and cross-border contexts. The dependent variable is the extent of resource redeployment on each resource dimension. As previously, we use four types of resource redeployment for each direction of redeployment. The independent variables for
the regression analyses were the relative strength of the target and acquiring firms on each resource dimension.

We follow two steps. In the first step, we perform an overall test of proposition 1 by assessing the impact of the overall relative resource strength on the overall extent of resource redeployment for the domestic and the cross-border sub-samples. We use the mean value of the four types of resource redeployment to construct a measure of overall resource redeployment. Similarly, we use the mean value of the four dimensions of resource asymmetry to construct a measure of overall resource asymmetry. In this first step, we estimate four regression equations, one for redeployment to domestic targets, one for redeployment to foreign targets, one for redeployment to acquirers involved in domestic acquisitions, and one for redeployment to acquirers involved in cross-border acquisitions.

In the second step, which is more exploratory, we conduct follow-up tests to estimate the relationship of each dimension of resource asymmetry on each type of resource redeployment for the domestic and the cross-border sub-samples. We estimate 16 regression equations, four for redeployment to domestic targets, four for redeployment to foreign targets, four for redeployment to acquirers involved in domestic acquisitions, and four for redeployment to of acquirers involved in cross-border acquisitions. We expect each type of resource strength to have most impact on its own redeployment, that is, we expect significant on-diagonal coefficients. Nonetheless, resource strength on one dimension sometimes will be an outcome of strength on other dimensions. The strength of several resources might affect redeployment of a particular resource if managers believe that causal relationships among different resources are important determinants of resource value. If this is common, many off-diagonal coefficients will be significant, in addition to the on-diagonal coefficients. The use of multiple regression analysis allows us to test the focal prediction while examining alternative relationships among the resource strength and resource redeployment variables. Table 8 reports the results.

********** Table 8 about here **********

The regression results reported in Table 8 support proposition 1. Panel A of Table 8 reports the estimation of the effect of overall relative strength of target to acquirer on resource redeployment to target. This relationship is negative and significant for the domestic acquisitions
as well as for the cross-border acquisitions, indicating that acquirer strength leads to significantly greater magnitude of resource redeployment to target. Similarly, Panel B of Table 8 reports the estimation of the effect of overall relative strength of target to acquirer on resource redeployment to acquirer. This relationship is positive and significant for both domestic and cross-border acquisitions, suggesting that the stronger the target, the more likely resource redeployment to acquirer.

We now turn to the examination of the different aspects of resource asymmetry. In both Panel A and Panel B of Table 8, the signs and magnitudes of the resource asymmetry influences on same-resource redeployment along the diagonals of the panels are similar in the domestic and cross-border cases. Overall, our results are consistent with the argument that domestic and cross-border acquisitions provide opportunities for firms to grow by redeploying superior resources.

**Proposition 2a: Effect of environmental context on resource redeployment**

We next consider the effect of external environment on resource redeployment of both domestic and cross-border acquisitions. Proposition 2a predicted the redeployment would increase with environmental similarity. (Recall that the descriptive statistics tested proposition 2b, which predicted greater environmental similarity in domestic contexts). In order to investigate proposition 2a, we calculated regression estimates of the relationship between resource redeployment and the environment similarity of the targets and acquirers in both domestic and cross-border contexts. The independent variable for the regression analyses was the mean of three aspects of environment similarity, including geographic markets, customer type, and direct competition.

The results in Table 8 support proposition 2a. We first estimate the impact of similarity on overall resource redeployment. Panel A of Table 8 shows that the extent of redeployment to target increases significantly with environment similarity in both domestic and cross-border acquisitions. Similarly, Panel B of Table 8 shows that the extent of redeployment to acquirer also increases significantly with environment similarity in both domestic and cross-border acquisitions. Overall, these results support the proposition.

At a more detailed level, environment similarity influences redeployment of most types of resources, other than managerial resources. Environment similarity has a very strong influence in
the cases of redeployment to acquirers, notably those involved in cross-border acquisitions where even managerial resource redeployment increases with environmental similarity. This can be explained by a higher need for context familiarity to identify and capture resources from cross-border targets.

As sensitivity analysis, we also conducted detailed empirical analyses in which we evaluated the individual impact of each aspect of environment similarity. Direct competition has the most common effect on resource redeployment. Customer similarity has a more limited influence. Similarity of geographic markets has no influence in either the domestic or cross-border cases, whether for redeployment to targets or to acquirers. Overall, direct competition seems to be the strongest environmental influence on the propensity to redeploy resources, both in a domestic and an international context.

**Proposition 3: Effect of resource redeployment on acquisition performance**

In this section, we test the impact of resource redeployment on performance of both domestic and cross-border acquisitions, which our third proposition predicted would be positive. We calculated regression estimates of the relationship between resource redeployment and acquisition performance of the targets and acquirers in both domestic and cross-border contexts. The dependent variable is the changes in performance of the target and the acquirer. As we mentioned earlier, we use five aspects of performance: R&D capabilities, time to market, product quality, product cost, and product line extension. These five dimensions are somewhat interrelated, as the correlation matrices of Table 6 show, but vary with sufficient independence to warrant individual examination. The independent variables for the regression analyses were the extent of resource redeployment to the target or to the acquirer on each resource dimension. We use four types of resource redeployment for each direction of redeployment.

We proceed in two steps, as we did in the redeployment analyses. We first perform an overall test of the proposition for the domestic and the cross-border sub-samples. We test proposition 3 by assessing the impact of the overall resource redeployment on the overall performance of acquisition. We use the mean value of the five aspects of performance to construct a measure of overall performance. Similarly, we use the mean value of the four types of redeployment to construct a measure of overall resource redeployment. We follow this procedure
for both the target and the acquirer. In the first step, we estimate four regression equations, one for performance of domestic targets, one for performance of foreign targets, one for performance of acquirers involved in domestic acquisitions, and one for performance of acquirers involved in cross-border acquisitions. In the second step, which is more exploratory, we conduct follow-up tests to estimate the relationship of each type of resource redeployment on each aspect of performance for the domestic and the cross-border sub-samples. In this second step, we estimate 20 regression equations, five for performance of domestic targets, five for performance of foreign targets, five for performance of acquirers involved in domestic acquisitions, and five for performance of acquirers involved in cross-border acquisitions.

Table 9 reports the results of the performance analyses. The analyses provide somewhat better fit for the performance of domestic acquisitions than for cross-border cases, as shown by the R-square statistics. The differences likely stem from greater complexity in cross-border acquisitions and need for longer time periods to realize potential acquisition benefits.

********** Table 9 about here **********

The results in Table 9 support proposition 3. Panel A of Table 9 reports the estimation of the effect of overall resource redeployment to target on target performance. As predicted, this relationship is positive and significant for the domestic acquisitions and for cross-border acquisitions. Similarly, Panel B of Table 9 reports the estimation of the effect of overall resource redeployment to acquirer on acquirer performance. This relationship is positive and significant for the domestic and cross-border acquisitions.

We now examine different aspects of target performance and resource redeployment. Three main sets of results stand out. First, redeployment of manufacturing resources to targets is more likely to have positive effects on performance in domestic acquisitions than in cross-border acquisitions, where it improves only product quality and product cost. The likely reason is that the use of manufacturing resources is particularly sensitive to the environmental context, requiring interactions with suppliers, labour, and other participants. Second, marketing redeployment is slightly more likely to produce positive performance in cross-border cases than in domestic cases, possibly because the marketing resources provide greater diversity and potential for improvement in cross-border settings. Third, management redeployment
independent of other resource redeployment has somewhat negative influence on domestic performance, but no impact on cross-border performance. The likely reason is that management redeployment without other resources may lead to confusion and problems, which may be tend to be offset in international settings in which managerial diversity provides counter-weighting benefits. For both domestic and foreign targets, this result could suggest that, when the managerial resources are redeployed in combination with technical or marketing skills (i.e., when they act as supportive skills), their positive effect is likely to be combined through the effects of the other types of redeployment. However, when acquirers redeploy only managerial resources to targets, without other resources, they do not enhance performance.

Among the control variables, target performance tends to increase in acquisitions involving relatively large targets in both domestic and cross-border cases. Industry over-capacity has a somewhat negative impact on target performance in the domestic acquisitions.

We next examine different aspects of resource redeployment and acquirer performance, in Panel B of Table 9. Four main results stand out. First, in both subsamples, redeployment of innovation resources is often beneficial, particularly for product quality and cost, as well as, in the cross-border sample, for R&D capabilities. Second, manufacturing redeployment is often beneficial, improving cost in both subsamples, quality in the domestic cases, and time to market in the cross-border cases. Third, marketing redeployment has more impact on cross-border acquirer performance than domestic acquirer performance, as it did in the target performance analysis. Fourth, managerial redeployment to acquirers offers some benefits in domestic cases, likely because the few acquirers that use managers from their targets have particular needs for those managers' skills.

Among the control variables in Panel B of Table 9, acquirer performance often increases in acquisitions involving relatively large targets in both domestic and cross-border cases. The presence of industry over-capacity tends also to have a negative impact on the performance of acquirers involved in domestic acquisitions.

The overall assessment of the detailed redeployment and performance results suggests two summary comparisons of cross-border and domestic acquisitions. First, redeployment of technical resources (innovation and/or manufacturing, which Table 3 shows that firms commonly
redeploy jointly) tends to improve many performance dimensions for both targets and acquirers. This suggests that technical resources offer substantial realizable benefits, which only moderate attenuation from context-specificity. Second, marketing redeployment is more likely to offer benefits in cross-border acquisitions, possibly due to greater diversity of expertise than in domestic cases, in which marketing resources may tend to substitute for existing resources (Capron and Hulland, 1999).

Overall, the results support proposition 3. The results support the argument that resource redeployment influences post-acquisition performance in domestic and cross-border acquisitions. At a more detailed level, the results suggest that resource redeployment leads to a varied set of value-creating mechanisms that apply in both domestic and cross-border acquisitions.

CONCLUSION

The empirical results of this study clearly demonstrate that resource redeployment to targets and acquirers influences the performance of both domestic and cross-border acquisitions. The results also show that the extent of post-acquisition redeployment varies with the values of asymmetry in the resource profiles of the firms and the context-specificity of these resources in both domestic and cross-border acquisitions. These results suggest that previous ambiguity in comparison of domestic and cross-border acquisitions results may stem from the inability to measure redeployment at the firm level, rather than from intrinsic differences in the underlying causation of domestic and cross-border acquisition performance. Most previous empirical tests are based on higher abnormal stock-market returns associated with acquisitions made by firms with superior intangible assets, and reflect the ex-ante expectation by financial markets that the acquirers will redeploy intangibles (Morck and Yeung, 1992; Eun, et al., 1996; Seth, et al, 1998). Our results complement these findings by exploring the realized gains in performance through this redeployment.

Our empirical and conceptual contributions are three-fold. First, both the strategy and international business literatures frequently argue that post-acquisition redeployment affects performance, but seldom test the prediction, particularly at fine-grained levels of multi-dimensional capabilities. Second, our empirical analysis helps provide a comparative assessment of domestic and cross-border acquisition performance, showing similar influences in both types
of acquisitions. Cross-border acquisitions involve firms with greater differences in their competitive environments. Third, by developing our arguments from both strategy and international business theories, we believe that we add to the theory of acquisitions research.

It is partly a historical accident the strategy and international business literatures take similar but non-intersecting treatments of the same central phenomenon. Early treatments of foreign direct investment focused on American investments abroad during the post-war period, often in Canada and Western Europe (Kindelberger, 1969; Caves, 1971; Vernon, 1971). This historical phase was characterized by the domination of American multinationals, along with some British firms operating in their former colonies. Consequently, the research made an often implicit assumption that firms expand abroad in order to use their existing advantages in foreign markets. Given the asymmetric levels of competitiveness of firms in investing and host countries, this assumption was reasonable in the international business literature. No such systematic imbalance existed in the context of domestic acquisitions, meanwhile, so that asset-seeking acquisitions became common subjects of domestic studies. As a result, the two literatures took somewhat divergent paths.

More recently, as management and technological innovations have diffused among continents (Kogut and Parkinson, 1993), there is a greater diversity in the origins of the firms investing abroad. Similarly, the motives of these investments reflect a more balanced distribution of firm capabilities around the world, particularly among triad nations, so that researchers now place more emphasis on asset-seeking foreign direct investment (Dunning, 1990). Acquisitions are the most common mode employed for this purpose (Hennart and Park, 1993) and asset-seeking incentives are a contributing factor to the growing popularity of acquisitions across borders. As a result, there is greater interest in generating a more unified view of acquisition performance and business strategy generally.

The similar nature of the relationship between resource redeployment and performance in domestic and cross-border acquisitions suggest similar underlying causes. However, we do not interpret our results to imply that geographical distance and national boundaries do not add complexity to the explanation of performance. In fact, our models explain the variance of acquisition performance much better in domestic than in cross-border acquisitions, especially
regarding target performance. This is consistent with the general theme in the international business literature that international transactions are more complex. Our models clearly do not include all the variables necessary to adequately explain international performance.

The results suggest two avenues for further research. First, the study suggests that focusing on cross-border acquisitions primarily as means of market entry may under-emphasize the role of acquisitions in helping firms change their capabilities through resource recombinations. In the resource recombination perspective, the access to diverse sets of capabilities in many geographic settings often provides key variations in needed resources, rather than simply providing new markets in which firms can use existing resources. A second avenue for ongoing research in this resource recombination perspective lies in exploring other dimensions of geographic diversity. We show that simply crossing borders tends to create only small differences in post-acquisition strategy and performance. Other elements of geographic diversity, particularly dimensions that arise at the firm level, may create greater differences. For instance, differences in the international experience and activities of targets and acquirers could well provide greater or lesser diversity in resources from which the targets and acquirers can draw. Therefore, future research needs to explore geographic diversity in greater detail.
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