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Out of Africa: The role of institutional distance and host-home colonial tie in South African Firms' post-acquisition performance in developed economies

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ABSTRACT

The colonial ties and institutional distance affect the cross-border acquisition performance of internationalizing South African firms who acquire targets in developed economies. Along with these main effects, this paper examines the moderating effect of the colonial tie on the effects of institutional distance on post-acquisition long-term operating performance. Using data on South African acquisitions in developed economies, this study finds that the colonial tie has a negative impact on the long-term operating performance of South African acquirers. Yet, the colonial tie also moderates the effects of institutional distance. This work contributes to the discussion on host-home country institutional distance and its impact on post-acquisition long-term operating performance and how colonial past can influence the performance of acquirers from South Africa and other such countries with colonial history.

1. Introduction

In recent years, African countries experienced dramatic economic growth. South Africa (SA) has grown in GDP from 136 trillion U.S. dollars in the year of 2000 to close to 350 trillion U.S. dollars in 2014 (UNCTAD, 2014). Along with Brazil, Russia, India, China, SA has been coined as part of BRICS countries, which have demonstrated impressive economic development in the twenty first century. BRICS countries have become important investors and the total of BRICS outward foreign direct investment (FDI) has risen from US$7 billion in 2000 to US$126 billion in 2012, or 9% of world flows (UNCTAD, 2013). The increasing FDI from these emerging-market multinational firms (EMFs) draws researchers' attention to the study of the rich national institutional contexts and how the host-home institutional differences influence the EMFs' performance (Child & Marinova, 2014; Cuervo-Cazurra, 2012; Cui & Jiang, 2012; Ramamurti, 2012; Tsui, 2006; Zoogah, Peng, & Woldu, 2015). Among an array of entry modes, EMFs have mainly utilized cross-border acquisitions to expediently expand their business landscape and upgrade their organizational capabilities (Aybar & Ficici, 2009; Luo & Tung, 2007). In particular, developed markets have become great destinations to meet these latecomers' urgent need to catch up with established multinationals (Luo & Tung, 2007; Makino, Lau, & Yeh, 2002).

To successfully achieve their strategic goals, EMFs need to carefully navigate the home-host institutional environments (Dikova, Sahib, & Van Witteloostuijn, 2010). Institutional distance, the differences in the host-home institutional rules, has been studied as a source of liability of foreignness that hinders a foreign acquirer's ability to understand the formal and informal rules in the market (Eden & Miller, 2004; Kalasin, Dussauge, & Rivera-Santos, 2014; Kostova & Zaheer, 1999, Xu, Pan, & Beamish, 2004). Hence, a large institutional distance may negatively impact the foreign acquirer's post-acquisition operating performance. By contrast, some international management researchers argue that cross-national institutional distance does not only pose a negative effect, but also have value-added effects as differences can be viewed as sources of innovation and creativity that are beneficial in a rapidly changing environment (Reus & Lamont, 2009; Stahl & Tung, 2015).

Based on the South African (SA) context in the current study, we further delineate the intricacy of the distance effects based on one important home country characteristic — colonization history. Extant research on the effects of colonization in African countries generates a wealth of research that explains the post-colony economic development (Bertocchi & Canova, 2002; Iyer, 2010; Jones, 2013; Nunn, 2007). For instance, research suggests that the extractive colonization and poor governance during the colonial era continues to plague the economic development in African countries even today (Jones, 2013; Makki, 2015; Nunn, 2007). By interviewing business executives who are familiar with African acquisitions, Ellis, Lamont, Reus, and Faifman (2015) suggested that unique historical conditions, such as colonial ties,

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affect how employees perceive the acquisitions and have implications on how the post-acquisition integration process is managed. In light of the impacts of historical conditions on the post-acquisition integration process, we provide a set of hypotheses to delineate both the main effect of colonial tie and the interaction effect of colonial tie and institutional distance on SA firms' post-acquisition long-term operating performance. In addition, extant international business literature has focused extensively on short-term performance of emerging market firms (Aybar & Ficici, 2009; Gubbi, Aulakh, Ray, Sarkar & Chittoor, 2010; Gaur, Malhotra & Zhu, 2013; Nicholson & Salaber, 2013). The current study focuses on operating performance of cross-border acquisitions and contributes to our understanding of EMFs' long-term performance (Fang, Nofsinger, & Quan, 2015) after their acquisitions in the developed economies.

Overall, as several researchers suggest, the African context provides a fertile ground for boundary condition testing and theory development (Ellis et al., 2015). While cross-border acquisition activities in the African context have increased, there is limited research that examines African acquirers' performance (Ellis et al., 2015). Within strategy research, a newly emergent research stream based on institutional theory has augmented the past strategy research that relied on resource-based and/or industry-based views, both of which have taken the country-level factors as being nearly a non-consequential backdrop. An institution-based view incorporates these important country-level contextual factors, both formal and informal national institutions, of a firm's strategic choices (Peng, Sun, Pinkham, & Chen, 2009). What remains an intriguing issue is about how different national institutions interact to form the basis of a firm's strategic choices (Peng et al., 2009). In the current study, we reveal the complex effects of a particularly salient contextual factor shared among emerging economies, namely their colonization history. We take an integrative approach to examine the role of colonial tie in studying SA acquirers' performance as well as the distance effects of political and economic institutional development. While political institutional distance and the colonization history present negative impacts on SA acquirer's long-term accounting performance, SA acquirers can leverage their understanding of the host market derived from the colonial history to mitigate the negative effect of the political institutional distance.

The rest of paper unfolds as follows. First, we provide a brief overview of SA's colonization history and discuss the limited prior research on SA firm's cross-border acquisitions. Second, informed by the literature review on institutional distance, we further describe and develop hypotheses. Finally, we share the findings, provide further research directions and discuss managerial implications in our conclusion section.

2. Literature review and hypotheses development

2.1. South Africa's colonization history

The development of institutions in South Africa is under the influence of two waves of colonization, first by the Dutch and next the British. In the 1650s, the Dutch East India Company established a resupply station, providing fresh water, food, and other necessities, at Cape Town for its fleet traveling between Holland and its empire in South and Southeast Asia (History, 2011). When the local Khoisan people refused to supply these items on the terms set by the Company, Europeans used firearms to seize control and drove indigenous inhabitants into the interior of Africa (Davenport & Saunders, 2000). The land was then farmed by white Europeans who were mostly former employees of the Company and slaves imported from other parts of Africa and Asia, adding to the ethnic diversity in the territory. In subsequent decades, French Huguenot refugees, the Dutch, and Germans continued to settle in the Cape, forming the Afrikaner segment, accounting for major non-English speaking whites of today's SA population (History, 2011). The process of settler colonization led to a permanent white population as well as a history of oppressive governance in South Africa.

In 1795, France occupied the Netherland, the home country of the Dutch East India Company, thus prompting the British to be wary of losing control over the route to Asia. Great Britain then occupied the territory in order to stop French attempt to reach India (Beck, 2000). After several battles, the British set up a colony, imposing English governance, language and culture, and expanded the colony inland. Encouraged by humanitarian advocates in Great Britain, the British abolished slavery in the British Empire in 1833 (Brendon, 2007). Starting from 1836, the Boers (Afrikaner farmers) grew discontent towards British rule and changes of the policy in freeing slaves. Thus, they undertook a northern migration that became known as the "Great Trek", resulting in a series of inter-group conflicts with natives, such as the Zulu (Davenport & Saunders, 2000). Subsequently, the Boers won and established two independent republics − Transvaal and Orange Free State. In May 1910, the British unified the two republics and the British colonies of the Cape and Natal, and the Union of South Africa was formed (Davenport & Saunders, 2000). The Union of South Africa claimed independence and ended British colonization through diplomatic measures and it remained as part of the Commonwealth until today (Decker, 2010).

Colonization has long-lasting effects in many ways. First, colonial powers have spread their language, religion, governance system and cultures among those once-colonized countries. Today SA and UK have similar laws and finance systems (Weimer & Vines, 2011). Many South Africans and the British share the same passion for the sports events, such as crickets and rugby. Second, the marginalization of the indigenous population by the dual colonial powers continued and even strengthened by the creation and election of the National Party in 1948, which institutionalized the ideological doctrine of separate development of races, i.e. apartheid (Marx, 1998). The apartheid system led to generations of race and gender hierarchy in the workplace with white men at the top of the management system (Human & Hofmeyr, 1985; Nkomo, 2015). In 1990s, domestic protests, economic struggles and international economic sanctions finally brought an end to apartheid. The first black South African president, Nelson Mandela, was elected in 1994. Many foreign investors who boycotted the apartheid government have returned with new investments and large projects that stimulated South Africa's recent economic growth (Teoh, Welch, & Wazzan, 1999), but the workplace discrimination based on the gender and race persists (Carrim, 2016).

2.2. South African firms' cross-border acquisitions in developed markets

Having a relatively stable business environment, SA is credited as one of the leading economic powers in the African continent (Ernst & Young, 2012; Jay & Custy, 2004). SA firms initiated close to 37% of the total number of acquisitions in Africa between 2002 and 2013 (Ernst & Young, 2012). Recent EMF researchers suggest, unlike traditional multinationals, EMFs do not usually establish a substantial foundation before they venture abroad. Instead, EMFs seek accelerated internationalization to acquire much needed strategic assets, such as advanced technology and managerial know-how (Elango & Pattnaik, 2007; Li, Li, & Shapiro, 2012; Luo & Tung, 2007), as well as to escape the institutional constraints back in their home markets where market-supporting formal institutions are less developed (Cuervo-Cazurra and Ramamurti, 2015; Makino et al., 2002; Ramamurti, 2012). For instance, SabMiller, a brewing and beverage company founded in South Africa, has to operate globally to avoid governmental control over foreign exchange usage and to escape from a limited domestic market (Luo & Tung, 2007).

Further, researchers suggest that developed markets with well-established firms and well-developed regulatory institutions have become important destinations for EMFs' strategic asset-seeking invest-

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