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Language and cross-border acquisitions: An exploratory study

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ABSTRACT

The aim of this study is to examine the effects of language on post-acquisition performance of US based cross-border acquisitions. In this study we attempt to show that post-acquisition performance is explained by the linguistic distance between the acquirer and target country of the acquisition. In addition, this study explains the moderating role of acquisition experience in the linguistic distance–acquisition performance relationship. An analysis of 1120 US acquisitions in 33 target countries over a period of 6 years (2007 to 2012) demonstrates that linguistic distance has explanatory value in post-acquisition performance. Our analysis also demonstrates that the acquirer's cross-border acquisition experience plays a significant role as a moderator of this linguistic distance–acquisition performance relationship. In addition, our analysis of *lingua franca proficiency* also lends support to our hypothesized relationships and demonstrates the robustness of our findings.

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1. Introduction

Cross-border acquisitions are a dominant mode of foreign expansion, increasing in overall value from \$99 billion in 1990 to \$555 billion in 2011 (UNCTAD, 2012). Despite assumptions that acquisitions result in higher financial performance and create firm value (Barney, 1988; Datta, 1991; Zollo & Singh, 2004), there is little evidence to support these assumptions (Cording, Chrismann, & King, 2008). Existing evidence suggests that on average, acquisitions create close to zero value (Hitt, Ireland, Harrison, & Best, 2001; King, Dalton, Daily, & Covin, 2004). This failure to create value is often attributed to failed post-acquisition integration efforts (Haspeslagh & Jemison, 1991; Larsson & Lubatkin, 2001), excessive premiums paid (Child, Faulkner, & Pitkethly, 2001; Hitt et al., 2001), unskilled execution of the acquisition process itself (Schuler & Jackson, 2001), defensive motivations (Schuler & Jackson, 2001), cultural clashes and the loss of key talent (Cartwright & Cary, 1994), and distractions from core businesses (Doz & Hamel, 1998). Of these, post-acquisition integration efforts are especially critical when acquisitions span international boundaries (Haspeslagh & Jemison, 1991; Larsson & Lubatkin, 2001).

Acquisitions are communication intense and are burdened with a conflict driven environment (Haspeslagh & Jemison, 1991). As such, culture distance is an especially prominent explanation for

many integration failures and resulting in diminished performance in the cross-border M&As (mergers and acquisitions) literature (Cartwright & Cooper, 1993; Jemison & Sitkin, 1986). Numerous studies have considered culture distance, as an explanatory variable for post-acquisition performance, reaching conflicting and inconsistent conclusions (Stahl & Voigt, 2005). For instance, some scholars have argued that culture distance is negatively related to acquisition performance (i.e., Buono, Bowditch, & Lewis, 1985; Cartwright & Cooper, 1992, 1993; Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Datta, 1991; Morosini & Singh, 1994; Stahl & Voigt, 2005), while others have argued that culture distance is positively related to post-acquisition performance (i.e., Morosini, Shane, & Singh, 1998; Chakrabarti, Mukharjee, & Jayraman, 2009). Still others suggest that the culture distance and performance relationship in acquisitions is curvilinear (i.e., Reus & Lamont, 2009). This lack of clarity has prompted a call for researchers to consider other factors and moderators along with culture distance to better understand its effect on performance (Clampit, Kedia, Fabian, & Gaffney, 2015; Shenkar, 2001). Despite this call, theoretical and empirical inconsistencies of culture distance research continue to accumulate, and researchers remain highly dependent on culture distance to explain internationalization and other cross-border phenomena.

Given this dominant focus on the umbrella concept of culture distance, researchers have virtually ignored the singular importance of language differences, which is the first factor of Johanson and Vahlne (1977) 'psychic distance' concept. The psychic distance construct includes language, culture, political systems, level of education and level of industrial development. The past failure of

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culture distance to provide consistent evidence indicates that there is the potential for disaggregating the variable, in particular by examining the effects of language in isolation of culture (Henderson, 2005; Tietze, 2007).

In this study, we bring language to center stage in the context of cross-border acquisitions using theoretical and empirical evidence from existing research on the role of language in cross-border business functions. We examine the effects of language differences on post-acquisition integration and resulting post-acquisition performance and the moderating effect of the acquisition experience of the acquiring firm on the said relationship. In other words, we address two fundamental questions: 1) *What is the relationship between linguistic distance and post-acquisition performance in cross-border acquisitions?* and 2) *What is the role of acquiring firm's cross-border acquisition experience?*

We posit that language differences, measured by linguistic distance, may be interpreted as a condition threatening to attenuate the realized performance of cross-border acquisitions. We argue that differences in language present practical impediments to smooth post-acquisition integration efforts essential for post-acquisition value creation. Additionally, the acquirer's experience in conducting cross-border acquisitions can compensate for language difficulties and moderate this relationship. These relationships are tested using a dataset of 1120 cross-border acquisitions in the service industry by American firms of targets in 33 countries, from 2007 to 2012.

Our study contributes to the international business literature in three ways. First, we contribute by restoring the role of language considerations within the M&A context. M&As are communication intense and burdened with highly conflicted environments (Haspeslagh & Jemison, 1991). The success of M&As are driven by successful integration of people and resources delivered via inter-organizational coordination between the acquiring and target firms. Though there is evidence suggesting that language is an important element in intra- and inter-organizational coordination (Reiche, Harzing, & Pudielko, 2015), the role of language in understanding the success or failure of cross-border M&As is largely untouched. Ours is one of the first studies attempting to clarify the influence of language, and fluency of *lingua franca* (English as common language) on post-acquisition performance of cross-border M&As. This is a key contribution, as language has too often been subsumed under the umbrella of culture. In addition, research focusing on culture distance and acquisition performance relationship has failed to deliver conclusive results and often presented conflicting theoretical and empirical explanations. Specifically, our empirical findings provide concrete evidence emphasizing the importance of language by demonstrating explanatory power on post-acquisition performance.

Second, we contribute by demonstrating the importance of the acquirer's prior acquisition experience in post-acquisition performance. Our findings support the concept that the integration capabilities develop through experiential learning. Effectively dealing with endogenous issues in integrations arising from societal differences between the target and acquiring firm employees can modify the relationship between language distance and realized performance. In addition, we also demonstrate that acquisition experience of the acquirer aids in dealing with issues arising with target firms' origin from countries with poor *lingua franca* proficiency.

Third, we introduce a new measure of linguistic distance to IB research by borrowing from research in adjacent disciplines. This measure can serve as an empirical tool for conducting future research on the role of language in cross-border activities. We posit this borrowed usage of *linguistic distance* combined with *lingua franca proficiency* is both a more objective and pragmatic measure

relative to other often-used language distance measures. The measure demonstrates both the differences between a specific foreign language and native English (the objective element) and the difficulty in learning the specific foreign language (the pragmatic element).

The rest of the paper is organized as follows. The next section briefly reviews the literature on language. We then develop theory and hypotheses. Next, we present our data, methodology and empirical findings. In the final section, we discuss the theoretical implications, limitations and provide suggestions for future research.

2. Background

Language is central to society definitions (Gadamer, 2004) and 'produces' and 'transmits' meaning in human conversations (Chidlow, Plakoyiannaki, & Welch, 2014). The meaning transferred through language has two aspects: 'conceptual' and 'associated' meaning. 'Conceptual meaning' denotes literal meaning of the words and 'associated meaning' denotes locally determined undertones (Peltokorpi & Vaara, 2014, 603). Communications across linguistic barriers are replete with potential landmines in meaning and undertones, as language plays a role in shaping social identity (Ambos & Ambos, 2009; Frenkel, 2008; Harzing & Feely, 2008), connotes power and status (Neeley, 2013), and is also associated with cultural diversity (Brannen, 2004; Henderson, 2005). Research has shown that differences in social identity, social categorization, power disparity and cultural differences breeds dysfunction and frequently breaks teams into sub-groups defined by an 'us vs. them' mentality (Cramton & Hinds, 2004; Polzer, Crisp, Jarvenpaa, & Kim 2006). This is only exacerbated when there are linguistic differences. To this effect, a study of German and Japanese MNEs, Harzing and Feely (2008) found that teams comprised of members with high degrees of language distance face substantial linguistic barriers which result in dysfunctional teams characterized by ineffective communication, improper attributions and multiple conflicts.

Prior research also demonstrates that linguistic differences interfere with trust and team work (Feely & Harzing, 2003; Henderson, 2005). Trust is essential for cooperative behavior among individuals and teams (Mayer, Davis, & Schoorman, 1995; McAllister, 1995) and the lack of trust among teams or groups severely undermines cooperation. McAllister (1995) suggested that increased interaction enhances trust and cooperation among teams. To improve communications and interactions the majority of multinationals mandate English as the *lingua franca* or the common language of business (Bono & Vey, 2005). However, evidence suggests that even when there is corporate mandated *lingua franca*, non-native speakers tend to distrust native speakers, suspecting that they would deceive them using their superior language skills (Neeley, 2013). In addition, fluency in a common language is a concern because language is a "*medium of thought*" (Brannen & Doz, 2012: 80) and helps in the "*process of constructing organizational, social, and global realities*" (Piekkari & Tietze, 2011: 267). As such, disparities in fluency frequently distort the meaning of shared information (Hinds, Neely, & Cramton, 2014). Furthermore, fluency in a *lingua franca* is associated with power and status (Kingston, 1996; Neeley, 2013), which has been shown to aggravate disparities among group members (Knapp, 2003). These perceived differences in power and status among multilingual teams often confuses the dynamics of group functioning, rendering them ineffective.

Language is also an integral part of absorptive capacity (Cohen & Levinthal, 1990) reflecting the ability of a firm to learn and then utilize the accumulated knowledge as a resource (Piekkari, Welch, Welch, Peltonen, & Vesa, 2013). Research suggests that language is

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