

Acquirer-to-target relatedness and target country unfamiliarity in acquisitions

The role of product diversification and international experience

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Abstract

Purpose – The purpose of this paper is to analyze corporate scope decisions in acquisitions with a focus on the relationship between target country unfamiliarity and acquirer-to-target relatedness and on the moderating effects played by product diversification and international experience.

Design/methodology/approach – Using a dataset of 689 acquisitions completed in the period 2007-2013 by acquirers located in 60 countries, this paper utilizes an ordered logistic regression analysis.

Findings – With greater target country unfamiliarity, acquirers are encouraged to pursue greater acquirer-to-target relatedness. This finding suggests that acquirers tend to seek a balance between product and international diversification to reduce the sources of uncertainty in their acquisition moves. While past international experience strengthens this relationship, diversification experience has a negative moderating effect and hence encourages acquirers to reduce relatedness at increasing market unfamiliarity.

Originality/value – The originality of this paper is twofold. First, the authors extend the traditional internationalization-diversification framework to an unfamiliarity-relatedness relationship in the context of acquisitions. Second, the authors propose a construct of target country unfamiliarity in acquisitions that goes beyond the traditional domestic vs cross-border dichotomy by including previous experience in the target country.

Keywords Mergers and acquisitions, Relatedness, International experience, Country unfamiliarity, Diversification experience

Paper type Research paper

Introduction

International and product diversification represent key strategic decisions for corporate scope growth (Hitt *et al.*, 1994; Qian, 2002; Chang and Wang, 2007; Kumar, 2009; Mayer *et al.*, 2015) that over years have raised increasing academic interest. With an extensive body of literature converging upon the factors that influence a firm's scope expansion along each of these two directions separately, extant research has gradually shifted the focus on their interrelationship, examining both their joint impact on firm performance (e.g. Sambharya, 1995; Hitt *et al.*, 1997; Lampel and Giachetti, 2013) and their antecedents (e.g. Kumar, 2009;

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Hashai and Delios, 2012; Mayer *et al.*, 2015), with substantially mixed findings on whether they represent substitute or complementary growth strategies.

Empirical evidence on the relationship between international diversification and product diversification is controversial and reveals complex and multifaceted interlinkages (Kling *et al.*, 2014). Due to constraints deriving from the limited stock of available resources (Wiersema and Bowen, 2008; Levinthal and Wu, 2010), hampered transfer of knowledge (Kumar, 2009), along with managerial complexity and increased governance costs (Penrose, 1959; Teece, 1982), international and product diversification may represent mutually exclusive development paths. Observing a sample of 1,299 firms in the period 1993-1997, Kumar (2009) tests competing hypotheses and identifies a negative association between the two trajectories of growth. Indeed, both product diversification and internationalization have traditionally been considered as expressions of explorative behavior (Lavie *et al.*, 2010). Because firms feel more comfortable when acting within the boundaries of what they already know (Nohria and Garcia-Pont, 1991), they may pursue “alternative forms of balance” (Lavie and Rosenkopf, 2006, p. 84) by counterbalancing unfamiliarity in one dimension of growth with familiarity in the other. However, both the resource-based view and transaction cost economics theories propose that these two directions of corporate scope expansion share similar underlying mechanisms and may hence be complementary (Hitt *et al.*, 1997, 2006; Buckley and Casson, 2009). Indeed, although in the short-term coordination costs may possibly outweigh the benefits of expanding along both market and product scope simultaneously, concurrent growth may eventually occur motivated by the pursuit of scope economies and catalyzed by firm-level factors (Hitt *et al.*, 1997; Geringer *et al.*, 2000), including prior experience (Mayer *et al.*, 2015). Extending the analysis by Kumar (2009), Mayer *et al.* (2015) have recently found evidence of simultaneous growth for firms with a high product diversification, while a mutually exclusive growth is observed in those firms having low levels of product diversification.

Strategic management research extensively supports the view that acquisitions are the prevalent mode of product diversification and foreign market entry, especially when departing from current products and markets (Chang and Rosenzweig, 2001; Lee and Lieberman, 2010; Kling *et al.*, 2014), because theoretically there are nearly no constraints to the extent to which resources to be acquired can differ from existing ones (Krishnan *et al.*, 2004; Eschen and Bresser, 2005). Despite this flexibility, the integration of new resources poses challenges: the greater the divergence among resources to be combined, the more the pitfalls that the acquiring firm may encounter. However, little attention has been placed on the specificities of the product diversification – internationalization link when these strategies are implemented through acquisitions, a context in which experience has long been acknowledged as a crucial determinant of changes in a firm’s scope (e.g. Baum *et al.*, 2000; Nadolska and Barkema, 2007). Interest in how the two expansion strategies combine through mergers and acquisitions (M&A) is indeed very recent (Kling *et al.*, 2014) and provides potential for additional contributions. For example, building on a sample of 478 listed MNEs from both USA and European countries, Kling *et al.* (2014) investigate the impact of international and product diversification through acquisitions and divestitures on the firm’s risk-return profile in relation to its global vs regional strategy and find support for the hypothesis that cross-border acquisitions create more value in global firms if compared to home-region oriented MNEs.

Most studies examining the geographic scope of acquisitions distinguish between cross-border and domestic acquisitions (e.g. Shimizu *et al.*, 2004; Collins *et al.*, 2009; Kling *et al.*, 2014). Cross-border acquisitions inherently involve additional challenges if compared to domestic deals, due to the different sources of distance with the target environment (e.g. institutional, linguistic, cultural, economic, legislative). For this reason, knowledge of the critical characteristics of the target country can prove beneficial for firms engaging in cross-border acquisitions (Collins *et al.*, 2009) and, more broadly, in any international expansion project (Zaheer, 1995), as it reduces the firm’s liability of foreignness. To account for the

significant role played by previous experience in the target country, in this paper we overcome the traditional clear-cut dichotomy between cross-border and domestic acquisitions as suggested by Anand *et al.* (2005). We propose a construct of target country unfamiliarity that allows to unbundle acquisitions into: domestic acquisitions; cross-border acquisitions in which the acquirer enjoys prior experience in the host country, labeled as cross-border acquisitions for foreign country re-entry; and cross-border acquisitions in which the acquirer does not have any previous experience in the target country, labeled as cross-border acquisitions for foreign country entry.

This paper contributes to the ongoing conversations on the antecedents of corporate scope expansion along the product and market dimensions with a specific focus on acquisitions. First, building on the resource-based view and liability of foreignness, we extend previous studies on the diversification-internationalization link to analyze how the degree of product acquirer-to-target relatedness is affected by the level of acquirer's unfamiliarity with the target country. Consistent with previous findings that a substitution effect exists between the two directions of corporate growth, our results show that, when faced with increasing unfamiliarity with the target country, acquiring firms tend to prefer target firms with greater product relatedness. Second, following Kumar's (2009) proposition about the role played by firm-level factors in determining a firm's growth along the product and the international dimension and extending the recent analysis by Mayer *et al.* (2015) to the specific context of acquisitions, we explore whether and how past analogous experiences, i.e. product diversification experience and international experience, shape the unfamiliarity-relatedness relationship. Our analysis suggests that previous experience in product diversification creates the conditions for simultaneous growth along the product and the market dimensions. International experience, on the contrary, intensifies the positive relationship between unfamiliarity and relatedness, thus suggesting that this type of experience, as opposite to diversification experience, is not geographically fungible. As such, we answer calls in the literature for the consideration of the contingency factors that may alter the relationship between product and international diversification (Kumar, 2009). Finally, by unbundling the market scope of acquisitions into domestic, foreign country re-entry, and foreign country entry, we offer a more nuanced picture of the role of market unfamiliarity in acquisition decisions that takes into account the additional challenges that firms experience when straying from their markets.

This paper is organized as follows: next section presents the theoretical background of our study on the basis of which three testable hypotheses are developed. Then, a description of the methodology and of the variables used in the study is provided. After presenting our empirical findings, results are discussed. Finally, some conclusions are drawn and suggestions for future research are provided.

Theoretical background and hypotheses

Over years, an escalating interest among strategic management scholars has been devoted to the impact of relatedness on post-acquisition performance and mixed findings have been obtained concerning whether and how the degree of relatedness affects value creation following an acquisition (e.g. Seth, 1990; Datta, 1991; Park, 2002).

Research extensively supports the view that the degree of relatedness between acquirer and target drives the synergistic potential in an acquisition (Chatterjee, 1986; Singh and Montgomery, 1987; Seth, 1990; Datta, 1991; Larsson and Finkelstein, 1999; Halebian and Finkelstein, 1999; Zaheer *et al.*, 2013). As suggested by several studies, relatedness involves both similarity and complementarity (e.g. Penrose, 1959; Larsson and Finkelstein, 1999; Zaheer *et al.*, 2013), whereby similarity has been defined as a high degree of overlapping resources between acquirer and target, while complementarity occurs when "different but potentially mutually enhancing" (Zaheer *et al.*, 2013, p. 606) characteristics of the acquiring and target firms generate value creation. Similarity can create the potential for increased profitability thanks to high post-acquisition integration levels, which lead to scale and scope

economies, reduced costs, and increased operational efficiency (Larsson and Finkelstein, 1999; Zollo and Singh, 2004; Zaheer *et al.*, 2013). Benefits deriving from the combination of similar resources, however, may be threatened by the fact that in order to achieve such efficiencies, structural unification through rationalization of resources and consolidation of functional activities needs to be accomplished (e.g. Datta, 1991; Wang and Zajac, 2007; Puranam *et al.*, 2009; Zaheer *et al.*, 2013). Complementarity, on the contrary, fosters value-creating synergies based on mutually supportive resources and competencies (Bauer and Matzler, 2014) and avoids the need to eliminate the redundancies typically arising from the combination of overlapping resources (Harrison *et al.*, 2001; Wang and Zajac, 2007). The synergistic benefits of complementarity may, however, be jeopardized by the complexity driven by the increased unfamiliar interdependencies across the wide variety of functions and products involved (Harrison *et al.*, 1991; Larsson and Finkelstein, 1999; Ellis *et al.*, 2011). Indeed, at increasing complementarity, the two firms involved in the deal are more exposed to information asymmetry: they are more likely unfamiliar with each other's businesses and may ultimately not be able to successfully integrate (Wang and Zajac, 2007).

When considering the geographic dimension of acquisitions, research has pointed out that acquisitions occurring across national boundaries are perceived as more unfamiliar and uncertain *vis-à-vis* acquisitions in the domestic market (Shimizu *et al.*, 2004): geographic heterogeneity increases information asymmetries and dilates both the dispersion of activities and the exposure to diverse business contexts and cultures (Teerikangas and Very, 2006), which further challenges the whole acquisition process due to the different accounting standards, control mechanisms, and managerial practices implemented (Calori *et al.*, 1994; Lubatkin *et al.*, 1998; Child *et al.*, 2001).

The degree of unfamiliarity with a target market is driven by liability of foreignness, intended as "all additional costs a firm operating in a market overseas incurs that a local firm would not incur" (Zaheer, 1995, p. 343), and is magnified by double-layered acculturation, i.e. the necessity to both adapt to a foreign national culture and integrate the target's corporate culture (Barkema *et al.*, 1996; Shimizu *et al.*, 2004). Liability of foreignness and double-layered acculturation imply uncertainty, demand intricate interdependencies, and generate costs in terms of exchange risk, unequal market access, and lack of knowledge of the foreign market (Hymer, 1960). Zaheer (1995, 2002) identified four main sources of liability of foreignness: costs associated with spatial distance (e.g. transportation, travel); firm-specific costs deriving from the lack of familiarity with the local environment; costs generated by the host country environment in terms of lack of legitimacy of foreign firms; and costs deriving from the home country environment (e.g. restrictions on sales to some specific countries). Liability of foreignness hence mainly arises from the unfamiliarity with the environment and results in weak or absent linkages with local actors, poor access to local information and resources, and ultimately in a lower legitimacy and acceptance of the foreign entrant if compared to local firms (Petersen and Pedersen, 2002). Liability of foreignness, however, is not a static cost, as it tends to decline as firms progressively gain more knowledge of the local environment: as the acquirer extends its experience, develops linkages, aligns with the external institutional environment, and engages in learning activities, its liability of foreignness will reduce, or even disappear (Petersen and Pedersen, 2002; Zaheer, 2002).

In light of the shrinking liability of foreignness as long as firms consolidate their knowledge of the local market (Zaheer, 1995; Barkema *et al.*, 1996; Petersen and Pedersen, 2002), we expect uncertainty in cross-border acquisitions to differ depending on previous firm-level experience in the target country. Prior research has considered the effects of learning stemming from experience in the target country as a motivator of subsequent acquisitions in that same country (e.g. Collins *et al.*, 2009), as a factor influencing the choice of the entry mode (e.g. Barkema and Vermeulen, 1998; Slangen and Hennart, 2008), and as a factor affecting performance (e.g. Very and Schweiger, 2001; Uhlenbruck, 2004). The common underlying argument is that because organizational experience is not isolated from the external

context and rather interacts with it to create knowledge (Argote and Miron-Spektor, 2011), previous acquisition experience in a particular country provides “a more salient vehicle for learning” if compared to past experience in other countries (Collins *et al.*, 2009, p. 1331). Past acquisition experience in a certain target country results in a location-bound experience (Johanson and Vahlne, 1977; Very and Schweiger, 2001; Clarke *et al.*, 2012) that reduces the disadvantages of foreignness, while also leading to scale economies and learning benefits that may reduce uncertainty and facilitate negotiation and integration thanks to local knowledge (Very and Schweiger, 2001). From a risk perspective, acquirers may hence perceive cross-border acquisitions in known foreign countries as less uncertain if compared to cross-border acquisitions aimed at entering a new foreign market.

Because pre-entry experience provides the firm with relevant resources and knowledge (Qian *et al.*, 2012), the traditional clear-cut dichotomy between domestic and cross-border acquisitions, although established in the literature (Shimizu *et al.*, 2004), may lead to ambiguous results (Anand *et al.*, 2005) as it neglects the crucial role played by experience in the target country. For this reason, we overcome the conventional distinction between domestic and cross-border acquisitions and propose a construct of target country unfamiliarity that disentangles acquisitions into: domestic acquisitions, cross-border acquisitions for foreign country re-entry, and cross-border acquisitions for foreign country entry. This allows to bring into the picture the intermediate case of those deals which, although occurring across national boundaries, are made in countries where acquirers had previously established their presence through subsidiaries. These deals are hence characterized by a lower unfamiliarity in the eyes of the acquirers. It is worth noting that we are not suggesting that entry into new foreign markets is necessarily associated with high levels of liability of foreignness as similarities between a firm’s home country and foreign target countries in terms of economic conditions, culture, and institutional environment may dramatically reduce managers’ perception of market unfamiliarity (Buckley *et al.*, 2007; Kang and Jiang, 2012). Rather, we argue that, if compared to entry into foreign markets in which a firm has already established its own subsidiaries, entry into a country for the first time entails greater uncertainty and challenges. Our conceptualization of unfamiliarity is shown in Figure 1.

The unfamiliarity-relatedness relationship

Several studies have highlighted that because both international and product diversification are risky strategies as they generate market and financial risks, respectively, it is very

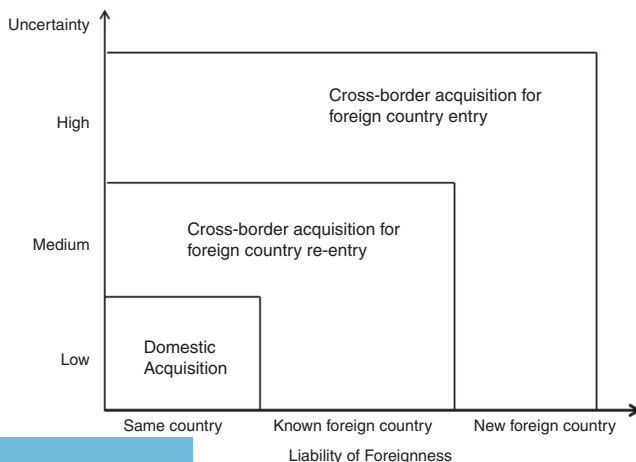


Figure 1.
Conceptualization of target country unfamiliarity

unlikely for firms to be willing to pursue both of them simultaneously as they would incur in both risks at the same time (e.g. Sambharya, 1995).

Resource-based view scholars have contended that the exploitation of scope economies in both tangible – e.g. plant and equipment – and intangible resources – e.g. technical and marketing know-how – is the main reason motivating diversification (Teece, 1982) and simultaneous growth along the product and the geographic dimension is stimulated to the extent that these resources are fungible (Kumar, 2009). However, constraints in terms of transfer of knowledge and absorption of new knowledge may force a trade-off decision between the two dimensions of growth (Kumar, 2009). Such constraints are generated by the tacit component that is inherently implied in intangible resources (Kogut and Zander, 1992).

The importance of learning for successfully executing strategy has been extensively recognized in both the international business literature (e.g. Zaheer, 1995; Delios and Beamish, 1999) and in the context of product diversification (e.g. Markides and Williamson, 1994). In a study on a sample of 1,299 US firms in the manufacturing sector over the period 1993-1997, Kumar (2009) investigates whether or not constraints are more influential than incentives in the joint pursuit of international and product diversification and finds a negative relationship between the two expansion paths, thus suggesting that constraints to growth are more powerful if compared to incentives in determining strategic choices.

Simultaneous growth along the product and the market dimensions hence implies additional complexity if compared to growth in one individual dimension at a time: bounded rationality (Zahra and George, 2002), increased governance and coordination costs and managerial complexity (Geringer *et al.*, 2000; Kumar, 2009; Lampel and Giachetti, 2013) may indeed pose constraints to the transferability of knowledge and absorptive capacity (Kumar, 2009), possibly compromising the synergistic benefits of synchronic scope expansion (Zhou, 2011). In the specific context of acquisitions, we therefore expect acquirers to pursue a balance between sources of unfamiliarity, thereby extending their corporate scope boundaries in one dimension individually: when moving into markets characterized by increasing liability of foreignness, acquirers may be encouraged to remain in the neighborhood of what they already know, keeping a higher product relatedness with the target firm (Nohria and Garcia-Pont, 1991; Lavie and Rosenkopf, 2006). Although evidence has been found that business similarity does not necessarily imply cultural similarity (Greenwood *et al.*, 1994), recent studies suggest that with greater similarity much of the knowledge required to manage the target business already lies in the acquiring firm (Zaheer *et al.*, 2013), as similarity “naturally generates knowledge about each other” (Wang and Zajac, 2007, p. 1295). Based on these arguments, we posit the following:

- H1. There is a positive relationship between an acquirer’s unfamiliarity with the country of the target firm and the acquirer-to-target relatedness.

The effects of experience

The prominent role of experience in determining the trajectory of decisions and the performance of subsequent strategic actions has been highlighted in several studies (e.g. Geringer *et al.*, 2000; Halebian *et al.*, 2006; Kumar, 2009; Mayer *et al.*, 2015). Building on Kumar’s (2009) study and using a sample of 767 firms between 1993 and 2007 located in the USA and in the three largest European economies, i.e. France, Germany, and the UK, Mayer *et al.* (2015) find a positive relationship between product and international growth at increasing levels of product diversification. The authors also find support for the hypothesis that, because diversification experience is geographically fungible while international experience is not, the former is a more influential determinant of simultaneous growth if compared to the latter. Extant research, however, has not examined the interrelationship

between these strategies when implemented through acquisitions, a domain in which experience substantially affects scope changes (e.g. Baum *et al.*, 2000; Nadolska and Barkema, 2007).

Research suggests that, due to organizational inertia, a firm's repertoire of routines makes future behavior repetitive and path-dependent (Amburgey and Miner, 1992; Lavie and Rosenkopf, 2006): experience in geographic and product diversification may hence affect a firm's future moves in both directions because over time firms tend to reproduce their strategies, anchoring their strategic decisions to past actions (Amburgey and Miner, 1992; Hashai and Delios, 2012). The main argument behind studies suggesting complementarity between product and geographic growth is that both strategies share similar underlying mechanisms (Mayer *et al.*, 2015) and build on common dynamic capabilities (Hitt *et al.*, 1994; Kumar, 2009). Hence, as "the challenges will not be identical when entering a new product or a new geographic market but sufficiently similar for firms to benefit from their experience in the other dimension of growth" (Mayer *et al.*, 2015, p. 1460), experience in product and international diversification may reduce the pressures to trade-off one growth path for the other (Kumar, 2009; Mayer *et al.*, 2015).

The moderating effect of product diversification experience. Product diversification generates scale and scope economies along with exposure to diverse learning opportunities and provides the firm with managerial capabilities that may help to deal with some of the challenges associated with internationalization: while single-business firms have no or limited experience in managing the internal diversity and the complexity generated by product diversification, multi-business firms can capitalize on this experience not just for further diversification but also when internationalizing (Hitt *et al.*, 1994, 1997; Geringer *et al.*, 2000). Diversified firms possess management capabilities and better governance structures (Hitt *et al.*, 1997), may reap cost advantages thanks to operational synergies in terms of cost complementarities and shared input facilities, and are able to efficiently transfer firm-specific capital across the different sub-units and businesses, especially under conditions of uncertainty (Barney, 1997; Benito-Osorio *et al.*, 2012). Some scholars have also suggested that a higher degree of product diversification enables firms to gain more from international diversification (Hitt *et al.*, 1997) as synergistic opportunities, bargaining power and competitive advantages become greater as product-diversified firms expand into multiple markets (Chang and Wang, 2007). Past experience in product diversification may therefore provide the acquirer with a repository of routines and capabilities that can be leveraged to embark on deal projects characterized by low acquirer-to-target relatedness at increasing unfamiliarity with the target country of the acquisition. These arguments lead to the following:

- H2. Product diversification experience negatively moderates the relationship between an acquirer's unfamiliarity with the country of the target firm and the acquirer-to-target relatedness.

The moderating effect of international experience. The importance of "discovering" the critical characteristics of the target market has been recognized in several studies (e.g. Markides and Williamson, 1994; Zaheer, 1995; Winter and Szulanski, 2001; Kumar, 2009): prior experience in the target country of the focal acquisition has indeed been acknowledged as a crucial factor affecting both behavior (e.g. Collins *et al.*, 2009; Alessandri *et al.*, 2014) and performance (e.g. Singh and Montgomery, 1987; Halebian and Finkelstein, 1999). While this argument lies at the basis of our conceptualization of target country unfamiliarity, we follow previous studies (e.g. Mayer *et al.*, 2015) in examining the role played by international experience, which is inherently general and non-location-bound, as it is accrued by operating in the international arena rather than in any specific country (Clarke *et al.*, 2012). Such experience is highly related to the ability to adapt to the local institutional environment (Petersen and Pedersen, 2002): internationally experienced acquirers

have developed knowledge and competencies that are not context-specific and that can hence be transversally applied to other contexts (Anand *et al.*, 2005).

The possibility to extend the knowledge bases accrued from experience in international operations may substantially affect the decision about the product-market profile: because the cost of internationalization is also a function of organizational and managerial competencies in handling foreign market efforts (Eriksson *et al.*, 2000), international experience may reduce the magnitude of unfamiliarity. Internationally experienced acquirers are exposed to diverse opportunities to accumulate general knowledge, gain access to a variety of environments and capabilities that would not be accessible in the context of their home country (Qian *et al.*, 2010). Thanks to this, they may reach greater operational efficiency and capitalize on interrelationships among the diverse geographic areas thereby reaching scale and scope economies (Riahi-Belkaoui, 1996). Because this type of experience is not restricted within the boundaries of any specific location and creates a repertoire of cross-applicable routines and capabilities, the experience gathered in terms of how to adapt to foreign institutional contexts may substantially reduce liability of foreignness and may encourage acquirers to increase their product scope, pursuing a lower degree of relatedness as the unfamiliarity with the target country increases. We therefore posit:

H3. International experience negatively moderates the relationship between an acquirer's unfamiliarity with the country of the target firm and the acquirer-to-target relatedness.

Conceptual model and hypotheses are reported in Figure 2.

Method

Sample and data

The initial dataset consisted of 826 acquisitions completed in the period 2007-2013. Data on deals were collected from Zephyr, a database of M&A included in ORBIS and produced by Bureau van Dijk Electronic Publishing. ORBIS includes financial data on over 50 million corporations worldwide and is largely used in management and finance research (e.g. Banaliev and Dhanaraj, 2013; Bollaert and Delanghe, 2015).

Additional data on target countries of acquisitions were collected from the yearly reports on global competitiveness issued by the World Economic Forum (WEF). As suggested by Kling *et al.* (2014), we identified the ultimate acquirer and target in order to avoid any misclassification in case a subsidiary initiates an acquisition.

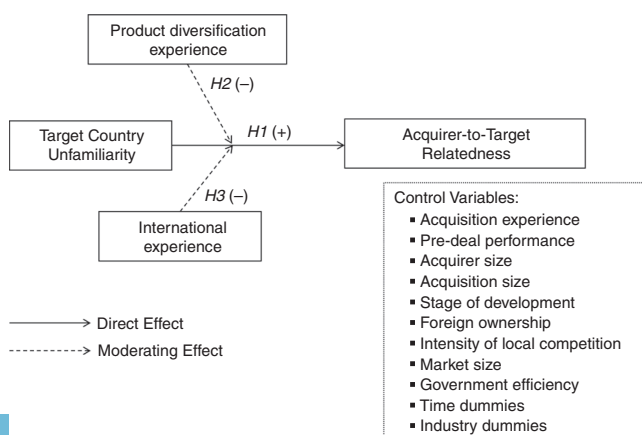


Figure 2. Conceptual model and hypotheses

While including target firms from a variety of industries in our sample, we imposed a limitation to provide an element of homogeneity: the acquiring firm should be active in the food and beverage sector, either as its primary business or as one of secondary businesses. Because the timeframe observed covers the years of the global financial crisis, the food and beverage sector has been selected for its non-cyclical nature which makes it less subject to economic and financial downturns. In order to examine corporate scope growth choices through acquisitions, we considered only completed transactions, thus leaving out from the sample any announcements, rumors, and withdrawals. In line with previous studies (Rossi and Volpin, 2004; Very *et al.*, 2012), we included in the sample only those deals in which acquirers gain majority ownership of the target firm, i.e. > 50 percent of target shares. Following previous studies, duplicated deals were deleted and we kept only those deals with disclosed values (Kling *et al.*, 2014). In addition, from the initial dataset, 137 observations were cut due to missing values. Our model is hence tested on a final dataset of 689 acquisitions completed by 464 acquirers located in 60 different countries.

Variables

Dependent variable. Because “conceptually, relatedness is a matter of degree” (Lien and Klein, 2006, p. 13), we measured acquirer-to-target relatedness through the weighted variable proposed by Haleblan and Finkelstein (1999) and later re-used in Finkelstein and Haleblan (2002). Although most studies base their measures of relatedness on the Standard Industrial Classification (SIC) codes of the two firms involved, we use the North American Industrial Classification System (NAICS), the latter being argued as a more precise measure if compared to the former as it captures more subtleties than the SIC, identifies emerging industries, and groups together industries that share similar production processes. Our measure of acquirer-to-target relatedness has hence been built according to the following grading scheme (Haleblan and Finkelstein, 1999; Finkelstein and Haleblan, 2002). We first examined matches between the primary NAICS codes of acquirer and target using values 2, 4, 6 to identify increasing levels of relatedness. We thus assigned 6 to a four-digit match, 4 to a three-digit match, and 2 in case of a two-digit match. We also took into account that relatedness may involve secondary businesses. Hence, if no match was found at primary business level, we graded relatedness considering NAICS codes corresponding to secondary businesses. Specifically, we used values 1, 2, 3 according to the following scheme: we assigned a 3 to matches at four-digit level, a 2 to three-digit level matches, and a 1 in case of match at two-digit level. Acquisitions not showing any match in any of the NAICS codes were assigned 0, i.e. unrelated acquisitions. As a result of this operationalization method, our acquirer-to-target relatedness scale ranges from 0 to 6[1].

Independent variables. In our conceptual framework target country unfamiliarity involves three different levels. The case of a domestic acquisition is qualified by the lowest unfamiliarity with any critical contextual trait of the target country as the acquirer does not suffer from any liability of foreignness. Among cross-border acquisitions, those aimed at re-entering a foreign country in which the acquirer already operates are expectably characterized by a greater level of unfamiliarity if compared to domestic acquisitions as they go beyond national boundaries, but by a lower level of unfamiliarity if compared to cross-border acquisitions for foreign market entry, as in the first case acquiring firms can leverage on past experience in the target country. By comparing the country ISO codes of each acquirer’s subsidiaries with that of the target firm, we identified whether the geographic location of the target represents or not a new destination for the acquirer. Those acquisitions showing a match between the target’s country and one or more of the acquirer’s subsidiaries were labeled as cross-border acquisitions for foreign country re-entry, as acquirers can benefit from previous location-bound experience. Those acquisitions not showing any match, being those characterized by the greatest level of unfamiliarity with the

target country, are identified as the case of cross-border acquisitions for foreign country entry. In our empirical model, the three levels of unfamiliarity have been operationalized through two binary variables: one for cross-border acquisitions for foreign country re-entry and one for cross-border acquisitions for foreign country entry, each of which captures differences with respect to the baseline category of domestic acquisitions.

We operationalize diversification experience as a continuous variable based on the number of different businesses at three-digit level in which the acquirer is active at the moment of the acquisition (Hashai and Delios, 2012). International experience is measured as the acquirer's total number of foreign subsidiaries. This measure is in line with the intensity dimension proposed by Clarke *et al.* (2012), according to which equity-based experience provides opportunities for a more radical learning if compared to non-equity-based experience.

A number of control variables are included to account for additional factors that may influence the relatedness-unfamiliarity relationship.

Firm-level control variables. Consistent with literature arguing that acquisition experience affects acquisition behavior (e.g. Haleblian *et al.*, 2006), we control for acquisition experience: in line with previous studies, past experience in acquisitions is measured as the number of acquisitions performed by the acquirer in the four years preceding the focal deal (Fowler and Schmidt, 1989; Porrini, 2004; Ellis *et al.*, 2011). We control for acquirer's pre-deal performance to account for acquirers rewarded by positive past performance being more willing to take risks. This variable is measured as the return on assets one year prior to the deal. Acquirer size is typically considered as a proxy of resource endowments that may eventually be invested in the post-acquisition phase. We therefore control for the size of the acquiring firm, which is operationalized as the log-transformed total assets in the year preceding the focal acquisition (Wang and Zajac, 2007).

Acquisition-level control variables. Because large acquisitions are usually perceived as more complex than small acquisitions (Haunschild, 1994; Ellis *et al.*, 2011), we also control for the size of the acquisition, measured as the value paid for the acquired stakes as provided by the database ORBIS. To control for time and industry effects, we created binary variables for each of the seven years in our sample and for the four macro-industries of the acquirers (i.e. agriculture, utilities, manufacturing, and services).

Country-level control variables. As acquisitions in our dataset involve 60 different target countries, we control for several country-level variables. The data source of all target country control variables is the Global Competitiveness Report developed by the WEF. First, because more efficient countries may be more attractive, we include a variable of government efficiency of the target country in the year preceding the focal event. This variable ranks countries as a result of several dimensions: wastefulness of government spending, burden of government regulation, efficiency of legal framework in settling disputes, efficiency of legal framework in challenging regulations, and transparency. Second, as healthy competition is a significant driver of market efficiency, we control for characteristics of both domestic and foreign competition in the target country. We hence include a variable capturing the intensity of local competition, which is a country ranking based on the degree to which competition is limited vs intense, as well as a variable of openness to foreign ownership to capture the extent to which the target country is open to foreign investors. Because the size of the market is an important factor affecting the potential for scale economies, we control for the target market size by including a variable developed by the WEF that involves two components: the size of the domestic market (computed as the natural log of the sum of the purchase power parity-adjusted GDP plus the total value of imports of goods and services minus the total value of exports of goods and services) and the size of the foreign market (computed as the natural log of the total value of exports of goods and services). Finally, we control for the target country stage of development.

This variable ranges from 1 to 5 based on the WEF classification, according to which five different stages of development are identified: factor-driven stage, efficiency-driven stage, innovation-driven stage, and two stages of transition, i.e. one from factor-driven to efficiency-driven and one from efficiency-driven to innovation-driven.

Consistent with other studies, all acquirer-related variables are lagged with respect to the year of the focal deal to ensure proper inference of causality. Variables and measures are summarized in Table I.

Empirical findings

Table II provides the distribution of the sample. In total, 251 acquisitions out of 689 involve diversification (36 percent) and a decreasing tendency to diversify is found at increasing

Variables	Measures
Acquirer-to-target-relatedness	Ordinal factor response measure 0 = no match (i.e. unrelated acquisition) 1 = 2-digit match outside the primary business 2 = 2-digit match in the primary business or 3-digit match outside the primary business 3 = 4-digit match outside the primary business 4 = 3-digit match in the primary business 6 = 4-digit match in the primary business
Cross-border acquisitions for foreign country re-entry	Binary variable for cross-border acquisition in which the acquirer has previous presence in the target country
Cross-border acquisitions for foreign country entry	Binary variable or cross-border acquisition in which the acquirer does not have any previous presence in the target country
Diversification experience	Number of acquirer's different businesses based on 3-digit NAICS codes
International experience	Number of foreign subsidiaries owned by the acquiring firm
Acquisition experience	Number of acquisitions completed from $t-4$
Pre-deal performance	Return on assets (ROA) at year $t-1$
Acquirer size	Log-transformed total assets of the acquirer (year $t-1$)
Acquisition size	Log-transformed deal value
Stage of development	Target country score from 1 to 5 elaborated based on WEF stages
Foreign ownership	Target country score developed by the WEF (year $t-1$)
Intensity of local competition	Target country score developed by the WEF (year $t-1$)
Market size	Target country value developed by the WEF (year $t-1$)
Government efficiency	Target country value developed by the WEF (year $t-1$)
Time dummies	One binary variable for each year of observation (2007-2013) ^a
Industry dummies	One binary variable for each industry (agriculture, utilities, manufacturing, trade) ^b

Notes: ^aThe baseline year is 2007; ^bthe baseline industry is manufacturing

Table I.
Variables and measures

	1: domestic acquisition	Unfamiliarity 2: cross-border acquisition for foreign country re-entry	3: cross-border acquisition for foreign country entry
Relatedness			
0	198	44	9
1	7	5	1
2	43	13	3
3	52	16	5
4	50	26	6
6	136	58	17

Table II.
Sample distribution

levels of unfamiliarity: while 79 percent of diversified acquisitions occur in the domestic market, 17 percent occur in a foreign country where the acquirer already has experience and only 4 percent involves entry in a new foreign country.

Consistent with the nature of our dependent variable as an ordered factor response variable with levels corresponding to the response categories, an ordered logistic regression has been used as estimation method. Since in our sample multiple acquisitions are carried out by the same acquirers, error terms may not be independent from one another. To control for cases of repeated acquirers, we “clusterize” the error terms by acquirer. Table III displays means, standard deviations, and correlations. While correlation coefficients are low for almost all of the variables, they are relatively high among country-level variables, namely foreign ownership, intensity of local competition, and government efficiency. To ensure that multicollinearity was not an issue, as a post-regression test, we examined the VIFs – variance inflation factors (using the `collin.ado` program in STATA). In all models, the VIFs were largely below the recommended threshold of 10, thus suggesting that multicollinearity did not bias our results.

In Table IV we report the ordered logistic regression results.

Model 1 is the baseline model, including all firm-level, acquisition-level, and country-level control variables. In Model 2 we add the two variables of cross-border acquisitions for foreign country re-entry and cross-border acquisitions for foreign country entry to capture the effects of different levels of target country unfamiliarity on the degree of acquirer-to-target relatedness, while also including the main effects of product diversification experience and international experience. The inclusion of these variables leads to an increase in the explanatory power of the model (pseudo- $R^2 = 0.06$ in Model 2). Models 3 and 4 incorporate the interaction terms capturing the moderating effect of acquirer’s product diversification experience and international experience, respectively. Model 5 displays our complete results with all interaction terms simultaneously (pseudo- $R^2 = 0.07$).

In line with studies suggesting that product and market growth tend to be mutually exclusive paths (Wiersema and Bowen, 2008; Kumar, 2009), *H1* predicts a positive relationship between the level of target country unfamiliarity and the degree of product relatedness in the acquisition. This hypothesis is supported only for greater levels of unfamiliarity, i.e., in the case of cross-border acquisitions for foreign country entry ($\beta = 2.11$, $p < 0.01$), while no support is provided in the case of cross-border acquisitions for foreign country re-entry. Differences in the degree of acquirer-to-target-relatedness are not statistically significant when comparing domestic acquisitions and cross-border acquisitions if the acquirer is already familiar with the foreign country, while those differences become statistically significant when acquisitions take place in foreign countries in which the acquirers had not previously settled any activities. We computed the marginal effect (at the point of means) corresponding to the coefficient of cross-border acquisitions for entry in Table IV, Model 5. This effect indicates that, if compared with domestic acquisitions, cross-border acquisitions for foreign country entry are associated with a 22.7 percent increase of the probability of higher acquirer-to-target relatedness[2]. This result corroborates our prediction that acquirers tend to seek product-market combinations whereby corporate scope growth along one dimension is counterbalanced by the choice to remain within familiar boundaries in the other dimension.

H2 and *H3* investigate whether the relatedness-unfamiliarity relationship is affected by, respectively, product diversification and international experiences. Specifically, *H2* posits the existence of a negative moderating effect played by diversification experience. Such effect is supported in the case of cross-border acquisitions for foreign country entry ($\beta = -0.86$, $p < 0.01$ in Model 5). Based on our coefficient in Model 5, we computed the marginal effect of cross-border acquisitions for entry associated with “low” and “high” levels of diversification experience, identified, respectively, as the levels corresponding

Table III.
Descriptive statistics
and correlation matrix

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1 Acquirer-to-target relatedness	2.82	2.50	1															
2 Cross-border acq. for re-entry	0.23	0.42	0.10*	1														
3 Cross-border acq. for entry	0.05	0.23	0.07*	-0.13*	1													
4 Diversification experience	2.07	1.50	-0.03	0.00	0.00	1												
5 International experience	25.41	84.31	-0.05	0.21*	-0.05	0.12*	1											
6 Acquisition experience	0.83	1.70	-0.14*	0.05	-0.03	0.06	0.07	1										
7 Pre-deal performance	0.02	0.34	0.04	0.02	0.01	0.01	0.02	0.04	1									
8 Acquirer size	12.10	2.44	0.07	0.27*	-0.02	0.20*	0.44*	0.14*	0.13*	1								
9 Acquisition size	8.47	2.69	0.15*	0.25*	0.03	0.05	0.24*	-0.11*	-0.00	0.47*	1							
10 Stage of development	3.49	1.03	-0.02	-0.10*	-0.01	-0.09*	0.06	-0.11*	-0.01	0.06	0.13*	1						
11 Foreign ownership	69.05	38.06	-0.09*	-0.09*	-0.15*	-0.02	-0.04	0.20*	0.01	-0.10*	-0.30*	-0.18*	1					
12 Intensity of local competition	47.87	41.44	-0.14*	-0.10*	-0.10*	-0.04	-0.04	0.32*	0.05	-0.14*	-0.39*	-0.10*	0.65*	1				
13 Market size	5.15	1.02	0.07*	0.07	0.01	-0.02	0.08*	-0.17*	-0.07	0.18*	0.31*	0.09*	-0.03	-0.50*	1			
14 Government efficiency	3.76	0.78	0.06	-0.08*	0.10*	0.06	0.03	-0.18*	-0.03	0.06	0.22*	0.06	-0.69*	-0.68*	0.15*	1		
15 Agriculture	0.11	0.32	-0.04	-0.11*	-0.01	0.26*	-0.04	-0.07	0.03	-0.01	-0.02	0.05	0.02	-0.01	-0.02	-0.02	1	
16 Utilities	0.03	0.17	-0.14*	0.14*	-0.04	0.28*	0.09*	-0.20*	0.04	0.04	0.02	-0.23*	0.06	0.09*	-0.13*	-0.05	-0.06	1
17 Services	0.05	0.22	-0.25*	-0.07	-0.03	-0.05	-0.03	-0.05	-0.00	-0.01*	-0.04	0.04	0.02	0.02	-0.00	-0.06	-0.08*	-0.04

Notes: $n = 689$. Time dummy variables are not reported. * $p < 0.05$

<i>Dependent variable: acquirer-to-target relatedness</i>					
Variables	Model 1	Model 2	Model 3	Model 4	Model 5
<i>Independent variables</i>					
Cross-border acquisitions for re-entry		0.37 (0.23)	0.62* (0.37)	0.15 (0.24)	0.49 (0.36)
Cross-border acquisitions for entry		0.53 (0.35)	2.06*** (0.75)	0.40 (0.39)	2.11*** (0.79)
Diversification exp.		0.04 (0.06)	0.09 (0.06)	0.04 (0.06)	0.11 (0.07)
International exp.		-0.00 (0.00)	-0.00 (0.00)	-0.01* (0.01)	-0.01* (0.01)
<i>Interaction effects</i>					
Cross-border acquisitions for re-entry × diversification exp.			-0.11 (0.10)		-0.16 (0.10)
Cross-border acquisitions for entry × diversification exp.			-0.70*** (0.25)		-0.86*** (0.28)
Cross-border acquisitions for re-entry × international exp.				0.01* (0.01)	0.01* (0.01)
Cross-border acquisitions for entry × international exp.				0.01 (0.02)	0.03*** (0.01)
<i>Control variables</i>					
Acquisition experience	-0.19* (0.07)	-0.20*** (0.07)	-0.19*** (0.07)	-0.19 (0.07)	-0.19*** (0.07)
Pre-deal performance	-0.06 (0.12)	-0.06 (0.13)	-0.05 (0.13)	-0.04 (0.12)	-0.02 (0.13)
Acquirer size	0.02 (0.05)	0.02 (0.05)	0.02 (0.05)	0.06 (0.05)	0.05 (0.06)
Acquisition size	0.08** (0.04)	0.07* (0.04)	0.08* (0.04)	0.07* (0.04)	0.07* (0.04)
<i>Target country control variables</i>					
Stage of development	-0.19** (0.09)	-0.16* (0.09)	-0.15* (0.09)	-0.13 (0.08)	-0.12* (0.08)
Foreign ownership	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00* (0.00)
Intensity of local competition	-0.01 (0.00)	-0.01 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
Market size	-0.05 (0.12)	-0.05 (0.12)	-0.04 (0.12)	-0.07 (0.12)	-0.05 (0.12)
Government efficiency	-0.21 (0.17)	-0.21 (0.17)	-0.23 (0.17)	-0.15 (0.18)	-0.16 (0.17)
<i>Industry dummies</i>					
Agriculture	-0.44** (0.21)	-0.45** (0.22)	-0.43* (0.22)	-0.48** (0.24)	-0.46* (0.24)
Utilities	-1.80*** (0.50)	-1.78*** (0.64)	-1.81*** (0.63)	-1.64** (0.68)	-1.63** (0.65)
Services	-3.43*** (0.81)	-3.40*** (0.83)	-3.45*** (0.85)	-3.41*** (0.82)	-3.51*** (0.87)
Year Dummies	Included	Included	Included	Included	Included
<i>Cut-offs</i>					
0 1	-2.15 (1.37)	-1.77 (1.34)	-1.72 (1.34)	-1.17 (1.30)	-0.99 (1.31)
1 2	-2.06 (1.37)	-1.68 (1.34)	-1.62 (1.34)	-1.07 (1.30)	-0.89 (1.31)
2 3	-1.65 (1.37)	-1.26 (1.34)	-1.20 (1.34)	-0.65 (1.30)	-0.47 (1.31)
3 4	-1.17 (1.37)	-0.78 (1.34)	-0.71 (1.34)	-0.16 (1.30)	0.03 (1.31)
4 6	-0.60 (1.37)	-0.20 (1.34)	-0.13 (1.34)	0.42 (1.30)	0.62 (1.31)
Number of obs.	689	689	689	689	689
Pseudo R ²	0.05	0.06	0.07	0.07	0.07
Log-pseudolikelihood	-976.54	-972.21	-967.99	-966.20	-960.49
DoF	18	22	24	24	26

Notes: Standard errors are reported in brackets. Significance codes: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$; **** $p < 0.001$

Table IV.
Ordered logit
regression

to the 10th and 90th percentiles of the distribution of such variable (holding other variables at means). The marginal effects indicate that, when diversification experience is low, cross-border acquisitions for foreign market entry have a 44.2 percent greater probability (compared to domestic acquisitions) of being associated with a higher level of acquirer-to-target relatedness. Such probability decreases at 5.3 percent for high levels of diversification experience. Specifically, the marginal effect becomes zero for diversification experience equal to 3.34 and turns negative for higher levels of diversification experience, thus confirming that the “substitution” effect between international and product diversification is mitigated for more experienced diversified firms.

The significant moderating effect of product diversification experience is shown in Figure 3. It is worth noting that, since our independent variable is binary, the function plotted in Figure 3 is defined only when the independent variable is equal to 1 and 0. To make the interpretation of results easier and the plot more readable, each line depicted in Figure 3 links the “pairs” of predicted logit values corresponding to cross-border acquisitions for foreign country entry equal to 0 and 1 for each possible value of diversification experience in our sample.

The interaction term of cross-border acquisitions for foreign country re-entry and product diversification experience is not statistically significant, thus failing to support the hypothesized moderating effect played by diversification experience in the case of cross-border acquisitions for foreign country re-entry. *H2* therefore receives partial support.

As to *H3*, which posits a negative moderating effect played by international experience, our results provide evidence of two main findings. First, the direct effect of cross-border acquisitions for re-entry is not significant in Model 5, thus preventing a sound interpretation of the barely significant coefficient of the interaction term cross-border acquisitions for re-entry × international experience ($\beta = 0.01$, p -value < 0.1, in Model 5). Second, a statistically significant moderating effect of international experience is found in the case of cross-border acquisitions for foreign country entry ($\beta = 0.03$, p -value < 0.01), but the coefficient shows a direction that is opposite to *H3*: international experience intensifies the substitution effect between product diversification and target country unfamiliarity in the context of high levels of unfamiliarity. We computed the marginal effect of cross-border acquisitions for entry associated with “low” and “high” levels of international experience, identified as the levels corresponding to the 10th and 90th percentiles of the distribution of such variable.

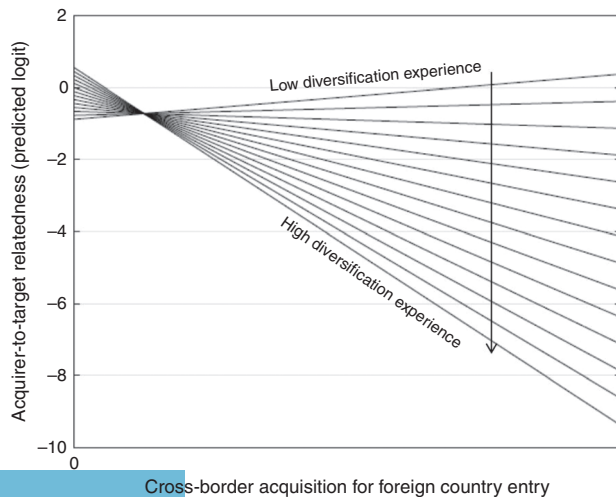


Figure 3.
The moderating effect of product diversification experience on cross-border acquisition for foreign country entry

The marginal effect confirms that the moderating role of international experience is significant in the case of high levels of target market unfamiliarity: when international experience is low, cross-border acquisitions for foreign market entry have only a 6.6 percent greater probability (compared to domestic acquisitions) of being associated with a higher level of acquirer-to-target-relatedness, while such probability raises to 44.1 percent when international experience is high.

Figure 4 plots the predicted logit values corresponding to the binary independent variable cross-border acquisition for foreign country entry equal to 0 and 1 for varying levels of international experience, evenly distributed between the 10th and the 90th percentiles. Such plot shows that, as international experience increases, cross-border acquisitions for foreign country entry have an increasingly higher probability of being associated with greater relatedness (compared with domestic acquisitions). The graph therefore confirms the reinforcing effect of international experience on the likelihood of acquirers pursuing acquisitions of firms characterized by greater similarities in terms of business scope. These results offer interesting insights, which we discuss in the next section.

Robustness test

We conducted a further analysis to test the robustness of our results. We created a dichotomous dependent variable that takes value 1 for diversifying acquisitions (corresponding to those deals coded as 0 in our models shown in Table IV) and takes value 0 in all the other cases (corresponding to the levels from 1 to 6 of acquirer-to-target relatedness). Because this dependent variable represents the reverse of acquirer-to-target relatedness, we expect coefficients to have opposite signs if compared to the findings that we obtained in our models in Table IV. The results obtained in the robustness test prove to be fully consistent with this expectation and hence confirm our findings. The first hypothesis is supported, thus confirming the existence of a substitution effect between diversification and target country unfamiliarity in the context of acquisitions. *H2* is supported as well: previous diversification experience mitigates the substitution effect and increases the likelihood of diversification at high levels of unfamiliarity. Similarly, results for the third hypothesis are consistent with those in our main model: previous international experience intensifies the substitution effect. Full results are available from the authors upon request.

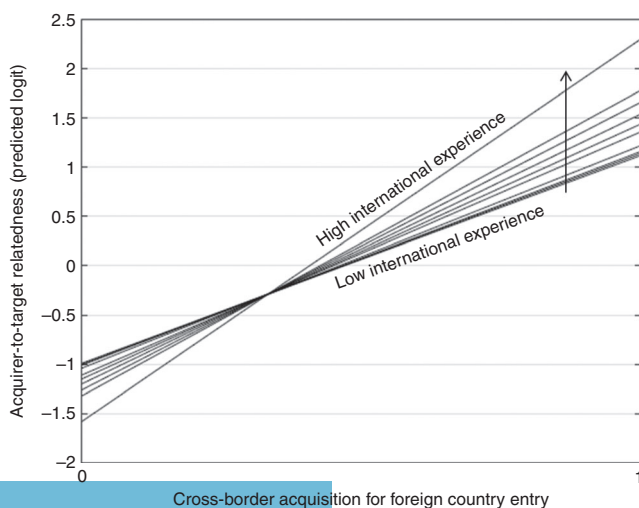


Figure 4.
The moderating effect of international experience on cross-border acquisitions for foreign country entry

Discussion and conclusions

In this paper we examined the relationship between unfamiliarity with the target country of an acquisition and the degree of acquirer-to-target relatedness. Results provide support to theories suggesting the existence of a substitution effect between growth along the product and market dimensions (Wiersema and Bowen, 2008; Levinthal and Wu, 2010). Indeed, cross-border acquisitions for foreign country entry imply a greater acquirer-to-target relatedness if compared to domestic acquisitions; a result in line with our prediction that corporate scope growth in one dimension tends to be counterbalanced by the choice to remain within familiar boundaries in the other dimension (Lavie and Rosenkopf, 2006). In other words, when the liability of foreignness is high, the unfamiliarity stemming from the environment encourages acquirers to pursue greater relatedness and, hence, those sources of value creation that derive from the combination of similar resources. On the contrary, no significant effect is provided for intermediate levels of target country unfamiliarity. The lack of significance of the coefficient of cross-border acquisitions for foreign country re-entry suggests that acquirers benefiting from prior experience in the target country may not seek greater acquirer-to-target relatedness if compared to acquirers realizing a domestic acquisition. This result is consistent with the literature arguing that the liability of foreignness significantly reduces or even disappears as long as firms gain knowledge of and get more embedded in the local environment (Petersen and Pedersen, 2002; Zaheer, 2002).

However, as suggested by Kumar (2009), the nature of the relationship between product and market dimensions is affected by the balance between those factors that allow to exploit resources and capabilities across product and market boundaries and those factors that limit such exploitation, whereby past product diversification and international experience have been argued to play a key role in shaping corporate scope expansion decisions (Kumar, 2009; Mayer *et al.*, 2015). Results for *H2* provide evidence of a negative moderating effect, which suggests that increasing diversification experience, being the result of past exploration of new product lines, confers experiential knowledge that can be leveraged and can thus encourage to acquire in a less related business when entering a new foreign country.

In a recent study by Mayer *et al.* (2015), international experience was found to have a weaker moderating effect if compared to diversification experience, explained by the fact that while the repertoire of routines and capabilities derived by diversification may be geographically fungible (Anand and Delios, 2002), resources accumulated from international experience tend to be related to the process of internationalization itself. Differently from the findings of Mayer *et al.* (2015), results for *H3* show that international experience is not just less impacting than diversification experience, but rather intensifies the tendency to grow along one dimension at a time. Therefore, these two experiences actually play opposite effects. In particular, the negative moderating effect of international experience, although departing from our predictions, is consistent with path-dependency theories. Indeed, because high international experience is the result of previous commitment of resources and efforts in realizing a process of internationalization, acquirers may be more willing to pursue geographic expansion within the core business or related businesses if compared to growth along both scope dimensions. Hence, when corporate scope growth occurs through acquisitions, international experience strengthens the likelihood of expanding asynchronously.

This paper provides several contributions. From a theoretical point of view, we contribute to the existing literature on product-market diversification choices and extend this perspective to an unfamiliarity-relatedness relationship in the context of acquisitions, showing that acquirers seek a balance between the sources of unfamiliarity in their acquisition moves. We contribute to the extant conversation on the role of past experience in

shaping corporate scope growth decisions (Kumar, 2009; Mayer *et al.*, 2015) by focusing on how such experiences act within the specific context of acquisitions. In line with Mayer *et al.* (2015), our findings suggest that product diversification experience encourages simultaneous growth also in the context of acquisitions, while a substantially different effect is found for international experience. Indeed, internationally experienced acquirers tend to deepen their commitment along the market dimension thereby preferring the benefits of synergistic gains derived by similarity rather than those arising from complementarity. Our partially different findings could be interpreted in the light of our focus on acquisitions as research context. These findings call for more research on the mechanisms through which experience affects corporate scope decisions for other ways of executing strategy.

An additional contribution stems from our conceptualization of target country unfamiliarity in acquisitions, which, following the suggestion of Anand *et al.* (2005), allows to go beyond the traditional domestic vs cross-border comparison by taking into account the role played by past experience in the target country. Our results demonstrate that our threefold classification of country unfamiliarity provides a richer understanding of firm acquisition behavior across varying national environments.

This paper also has some interesting managerial implications. Managers, being decision makers, are subject to uncertainty which discourages strategic decisions that are perceived as highly risky; however, past analogous experience may reduce unfamiliarity and may spur decisions otherwise rejected. Although coordination costs may possibly outweigh the benefits of expanding along both dimensions of scope simultaneously (Mayer *et al.*, 2015), experience may lead managers to overcome unfamiliarity and to pursue simultaneous growth, especially to maximize the utilization of the firm's proprietary assets (Delios and Beamish, 1999; Davies *et al.*, 2001). In particular, product diversification experience becomes especially relevant for firms seeking flexibility as it enables to grow along both directions. Internationally experienced acquirers, on the contrary, may be able to better seize opportunities for geographic growth if compared to firms with a locally oriented strategy. However, as theories on strategic inertia (Haleblian and Finkelstein, 1999; Finkelstein and Haleblian, 2002) have well underlined, past experience and the continued use of existing strategic routines may generate inertia, thus possibly leading managers to stick to current strategies instead of adjusting firm geographic and product market scope to varying environmental conditions. Managers should therefore also carefully scrutinize strategic alternatives trying to assess both similarities and differences with previous strategic moves.

This study has some limitations, which suggest interesting avenues for future research. First, target firm-specific characteristics are not included: firm-level factors of the target may affect preferences of acquiring companies; for instance, positive historical performance of target firms may strengthen the desirability profile of the acquisition leading managers to navigate the deal for both operating and competitive performance reasons. In addition, although we controlled for several target country-level variables, further research may investigate whether and how distance between the target's and the acquirer's country moderate the unfamiliarity-relatedness relationship as lower distance may reduce the challenges of entering a new and unfamiliar country. In addition, our concept of unfamiliarity has been built based on past equity-based experience through subsidiaries in the target country of the acquisition and therefore does not account for alternative types of experience either equity-based, e.g. joint ventures, and non-equity-based, e.g. export activities. Although providing the acquirer with a lower embeddedness in the local context if compared to wholly owned subsidiaries, experience based on other foreign country entry modes may still play a role in reducing the liability of foreignness. Future research may hence explore whether and how different types of country-specific experience affect the unfamiliarity-relatedness relationship in acquisitions.

Notes

1. As a result of the combination between the 2, 4, 6 levels of relatedness (primary NAICS matches) and 1, 2, 3 levels (secondary NAICS matches), value 5 is, by construction, excluded from the scale.
2. The change in acquirer-to-target relatedness has been measured as a change from 0 to 1 in our six-level relatedness scale. Given our choice of ordered logistic regression as estimation method, the marginal effects associated with changes in other levels of product relatedness are very similar to those commented here. As example, when measured as a change between the two upper levels of acquirer-to-target relatedness in our scale, cross-border acquisitions for foreign country entry are associated with a 23.6 percent increase of the probability of higher product relatedness, if compared to domestic acquisitions.

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